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# Government Competition with Private Business

*A menace to the welfare of American industry upon which, in the opinion of the author, the economic soundness of the country is based and upon which it depends to furnish employment to the people.*

By RAY E. WANTZ

CHAIRMAN OF THE ADVISORY BOARD OF THE ILLINOIS MANUFACTURERS' ASSOCIATION AND CHAIRMAN OF THE COMMITTEE ON GOVERNMENT COMPETITION OF THE NATIONAL ASSOCIATION OF MANUFACTURERS.

How long will it be before the United States government, in addition to its multitudinous bureaus, will be operating every business in the United States? This question is becoming a source of considerable anxiety to manufacturers and other employers. Government competition with private industry augmented and accelerated by political policies of interference with the rights of private business is becoming a menace to the efficient and economical operation of all industry and commerce.

Governmental competition which has had a steady growth for many years under Federal Bureaucracy is now greatly expanded under the policy of the Works Progress Administration by employing relief workers in the manufacture of garments, furniture, and general household articles.

Recently the Illinois Manufacturers' Association forwarded to Harry L. Hopkins, National Administrator of the Works Progress Administration, a complaint from seventy-five anxious manufacturers of women's

wash dresses in Chicago. The protest was based upon the manufacture of women's garments by relief workers in a well-equipped factory established in Chicago with thirteen outlying branches. Over three thousand women will be working on these garments for the next several months, also upon children's garments and other sewing.

One announcement stated that fifty million garments would be manufactured by relief workers throughout the United States.

THE manufacturers saw in this competition a dangerous displacement of the delicately geared industrial mechanism that would result in the loss of market, increase cost of material, and almost immediately displace a number of regularly employed workers equal in number to those engaged in the manufacturing operations—equal to the ranks from the relief rolls.

Petitions sent by the manufacturers included the names of several thousand of their employees protesting against this displacement of regular employees by relief workers.

The WPA administration, on the other hand, refers to this government competition as a humanly justifiable enterprise for employing relief workers at wages of $55, $65, $85, and $94 a month depending upon whether they are inexperienced, experienced, or skilled. The arguments by the WPA executives are that the relief workers must have something to do even though they displace regular workers. It is argued that the manufacture of these garments will not compete with private industry inasmuch as production is for relief workers themselves. It has also been pointed out that it will cost $3 a garment to manufacture the supply.

Three dollars a garment seems rather high for dresses that sell from 50 cents to $1. It explains a great deal of the objection to governmental competition with private industry—not necessarily in relief work but in everything else from ships to shoes. Last year at this time relief workers were making mattresses at a cost of as high as $9 each in some cities although the mattress manufacturers offered to produce them at $2.60.

THE United States government does not have to show a profit.

It can undersell the chain stores as it did with canned vegetables from the surplus products from the R. Thesdale homesteading project at Reedsville, West Virginia, last year where the government furniture factory is located.

It can force the liquidation of private electrical power projects by socialized enterprises in the Tennessee valley and in various municipalities when the taxpayers pay the difference between the cost of production by governmental plants and private plants where every item of cost must be considered, including taxes.

The government can successfully compete with manufacturers, merchants, and service companies by ignoring such items as taxes, rent, heat, light, insurance, overhead, and invested capital.

But it cannot do so without a grave and increasing danger to the welfare of the American industry and business upon which the economic soundness

of the country is based and which it depends upon to furnish employment to our people.

The extent to which our government has intruded into the domain of private enterprise is described in a survey, completed in 1933 by a congressional committee representing the House of Representatives, of the question of governmental competition with private enterprise. This survey revealed that the government was actively competing with private merchants, producers, and manufacturers in forty-one lines of industry. That survey further indicated that governmental competition affected at least 225 items of trade, industry, personal and professional services.

THIS tendency of the government to assume a more active rôle, not in the regulation of, but in actual participation in, the field of private enterprise, has been greatly accelerated during the period of the abnormal business conditions which have prevailed during the last several years.

A recent survey revealed that there are over two hundred governmental departments, bureaus, boards, commissions, and administrations headquartered in Washington. Over fifty of these commissions have been created during the past three years. These new agencies have undertaken to supervise and regulate practically every individual and corporate activity. Much too frequently these agencies issue rules and regulations having the force and effect of law.

In the period from 1901 to 1935 the population of the United States increased about 60 per cent, whereas the increase in new governmental positions at Washington supported by the taxpayers has been 350 per cent. Between June, 1933, and June, 1935, job holders employed by the United States government increased from 565,432 to 707,712, or more than 25 per cent.

THE rapid assumption by our government in recent years of functions formerly left entirely to private initiative is apparently based upon the philosophy that the traditional separation between the functions of government and private industry, upon which our economic system has been built, is obsolete; that private enterprise and free competition no longer properly serve the public interest; that individual freedom in the conduct of business, industry, and agriculture results in overexpansion of productive capacity, in overproduction, and in competitive practices injurious to the worker, to the employer, and to the general public. Those maintaining this philosophy accordingly propose

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that our government should engage in a system of so-called national economic planning through a system of extensive governmental agencies and through the centralization in our Federal government of powers over private business which have heretofore been lodged in our state governments or in the people.

I had the honor to serve as the chairman of the committee on government competition of the National Association of Manufacturers. The report of this committee, which was adopted by the National Association of Manufacturers' Congress of American Industry on December 4 and 5, 1935, contained a list of the private industries with which the government is competing.

I HAVE supplemented a list with some others, appearing on page 293, which have been taken from the files of the Illinois Manufacturers' Association.

From the report of the committee on government competition I quote the following:

> Since its inception, this country has been dedicated to the principle of private initiative.
>
> Since the signing of the Declaration of Independence, the long series of basic inventions in the fields of science and engineering have considerably altered our mode of life. These inventions have made possible a more abundant life, they have raised the standard of even our poorer citizens and given our workers luxuries unknown to the kings and nobles of a few centuries ago. Changes in our economic system have necessitated certain modifications in the scope of government activities, but they do not require regimentation or the surrender of our freedom to an autocratic bureaucracy.
>
> Our country has grown rich and powerful through the toil, industry, thrift, vision, and initiative of its private citizens, made possible by the freedom they enjoyed under our Constitution. These are the only qualities on which we can rely upon for future progress which will carry us to an even higher standard of living.
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> At the present time, when recovery is so desperately needed, Federal policies have resulted in actually frightening private business away instead of encouraging it.
>
> Let us not forget that this tendency to control private business on the part of our bureaucratic officialdom never diminishes but always increases. This program has been disguised by its proponents in such a manner that the real aims of the movement have thus far escaped the attention of the public at large and more especially of the voter.
>
> The large scale competition by the government with private enterprise represents one of the most important aspects of the gradual disintegration of our democratic form of government.
>
> We recognize that there are certain functions which can only be performed by a central government, such as the maintenance of armies, navies, and other services required for national defense. Other functions which might conceivably be performed by private enterprise have long been a government prerogative and should rightfully remain so. But experience has shown that government management is seldom efficient. It is always involved in routine and red tape.
>
> Under our American system private enterprise is constantly subjected to the acid test of competition—competition from other units of the same industry—competition from other industries—competition from foreign countries. The management every year must give an account of its stewardship certified to by outside accountants. Under this system inefficient management cannot long survive.
>
> When government corporations lose money the taxpayer will be called upon to make up the loss, whether or not he benefits either directly or indirectly by their creation. These losses may never become apparent, as they may continue to be hidden and buried in the maze of departmental appropriations or camouflaged by inadequate accounting methods.

WE have stated that government operation of business is inefficient. As an example we may mention the activities of the United States Shipping Board which is operating at a loss of $100,000,000 a year. The United States Railroad Administration during the recent World War cost the taxpayers $1,650,000,000. It was necessary for the government to

## The TVA Experiment in Socialism

*"ONE of the most gigantic invasions of private business by the government is furnished by the Tennessee valley experiment inaugurated by an Act of Congress. . . . The development includes the generation and sale of power, the manufacture of fertilizers, and a program of social and economic planning with the aim of promoting the social and economic welfare of the region and of the nation. In other words it is an experiment in state socialism in its extreme form."*

loan the railroads $1,080,000,000 in order to get their roads into working order again and it became necessary to increase freight rates by 30 per cent and passenger rates by 20 per cent, to help pay the big deficit.

During the nine years 1923–1931 the Canadian National Railway, owned by the Canadian government, failed by no less than $456,063,195 to earn the interest which the government of Canada was bound to pay to the holders of securities of the road.

From 1924–1933 the Inland Waterways Corporation, a Federal-operated river transportation agency, failed by $7,000,000 to earn interest on its own investment. These are just a few examples of the failures of government-operated business undertakings.

STATE ventures into the field of business enterprise have been no less financial disasters. The Pennsylvania Canal System lost $58,000,000 to the public. The Bank of Alabama became insolvent in 1857 with a loss of $14,000,000. Similarly the Union Bank of Florida failed with a loss of $9,000,000. The Bank of the State of Illinois in 1843 was abandoned with a state debt of $2,000,000. The Meredosia Springfield R. R. was abandoned in Illinois in 1847 after a loss of $1,000,000. South Dakota from 1918–1933 had an elaborate state loan system, state insurance, cement plant, coal mine, surety bonding bureau, guaranty of bank deposits, retail gasoline business, etc. The ultimate loss on these enterprises is estimated at nearly $35,000,000. In 1930 South Dakota public debt was $82.25 per capita, the highest in the United States.

One of the most gigantic invasions of private business by the government is furnished by the Tennessee valley experiment inaugurated by an Act of Congress. The territory under the control of the Tennessee Valley Authority covers more than 40,000 square miles, crosses the lines of seven states, and includes 2,400 incorporated towns and villages. The development includes the generation and sale of power, the manufacture of fertilizers, and a program of social and eco-

nomic planning with the aim of promoting the social and economic welfare of the region and of the nation. In other words it is an experiment in state socialism in its extreme form.

I QUOTE from the report of the committee on government competition on this subject as follows:

> The Tennessee Valley Authority is not required to sell electricity at cost or above, but may continue to sell it below cost indefinitely, with the American taxpayers from Maine to Oregon footing the bill. It may build transmission lines to compete with those of private companies. It may use its financial resources to force private companies to sell their own power lines to Federal, state, or city governments. It may build whatever dams or projects it deems desirable and may connect them into one or more power systems. Thus the Federal government has entered the power business.
>
> At the present time the Muscle Shoals plant of the TVA is producing susbstantial quantities of high-grade superphosphate. This is being offered to farmers in the seven so-called valley states, for experimental purposes, the only expense to the farmer being the cost of transportation from Muscle Shoals to his farm. Although these phosphates are supposed to be used only for the prevention of soil erosion, the farmer can easily divert them to the raising of general crops.
>
> Besides the large scale production of power and fertilizer, the TVA has already branched out into a great many of other activities, such as the manufacture of cement, real estate operations, bus transportation lines, and a host of other purely private enterprises.
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> Furthermore the act gives the TVA the right to any scientific invention developed by private initiative by going to the Patent Office for the purpose of "studying, ascertaining, and copying all methods, formulas, and scientific information necessary." If this is not a flagrant infringment of the rights of private property, what is? And is not this a dangerous precedent which may ultimately involve not only patents but all other property rights?
>
> To date $110,000,000 of the American taxpayers' money has been appropriated to finance this experiment in socialism. However, the supporters of the project have predicted that the total cost of development will be around $1,000,000,000.
>
> The question of government competition with privately owned public utility companies is a vitally important question. It is even more important where the government evidently wants to develop such projects primarily as a means of regulation by the threat of destruction, or as a deliberate step toward the socialization of industry.
>
> Many of those opposed to the present colossal governmental water-power program feel convinced that the principal motive behind the program is to wipe out private enterprise by developing government operated hydroelectric plants.

The principal Federal power projects in addition to the one in the Tennessee valley are located in California, Arizona, Montana, Washington, Maine, Wyoming, and West Virginia.

I HAVE referred to the competition of relief agencies with private business. From April, 1934, to September, 1935, the products distributed by the Federal Surplus Relief Corporation included food stuffs to the value of $43,000,000, clothing to the value of $13,000,000, household furnishings to the value of $28,000,000, miscellaneous to the value of $3,000,000, a total of $87,000,000.

More than 6,000 sewing centers were created by the FSRC. Over 11,000,000 garments have been made thus far and a total of 150,000,000 yards of cotton textiles has been purchased through the procurement division of the PWA for distribution among the various state relief agencies.

The committee of the National Association of Manufacturers believes with the congressional committee, appointed under the chairmanship of Joseph B. Shannon in 1932, that the entrance of the government into commercial and industrial undertakings, backed by public credit and resources and its military and civilian personnel, for the purpose of competing with the business establishments and the opportunities of livelihood of its citizens, is,

therefore, in general repugnant to our fundamental democratic institutions and aspirations.

THE committee on government competition of the National Association of Manufacturers has recommended:

1. The government ought not to engage either directly or through subsidies in the manufacture, production, or purchase of commodities or services for sale in competition with private enterprise.

2. It ought to procure commodities and services for all its uses from the commercial and industrial world.

3. The Navy Yards are established to maintain the armed fleets of the United States and are justified only while fulfilling that function.

The Federal Arsenals are equipped to produce war materials not generally produced commercially. They should not be employed to produce commercial or military articles manufactured by or obtainable in quantity from private industry.

4. Government departments, while continuing to engage in any art of production or service, should be required to establish and maintain a standard system of accounting containing the elements ordinarily recognized in all similar conditions of private operation.

5. Other things equal, the government should give preference in purchasing commodities and services to domestic producers.

TO these recommendations we would now add the following:

The lending activities of the government should be rapidly curtailed. Existing loans should be liquidated or transferred to banks or other private credit institutions as fast as they can be absorbed by the private institutions without hardship to the borrower.

Bonds and other securities taken

Agriculture
Amusements
Architecture
Baking
Banking
Live stock
Ship chandlery
Printing and binding
Brickmaking
Canning
Brush and broom manufacture
Canvas products
Cement dealers
Chemicals
Clothing
Coal business
Coffee importation
Contracting
Cotton industry
Creameries
Animal and fowl feeds
Physicians, surgeons, dentists
Veterans' hospitalization
Warehousing
Helium
Theaters
Automatic vending machinery
Foundries
Ink and printers' rollers
Ink, paste, and mucilage
Mattresses and quilts
Fruit and vegetable shippers
Furs
Grain trade
Ice manufacture
Laundries
Mechanical shop and marine work
Shoe factories
The wool industry
Dairy farming
Engraving
Envelopes and stationery
Explosives
The express industry
Fertilizer products
Furniture dealers and manufacturers
Gasoline and oils
Hotels and restaurants
Insurance
Lumber
Saddlery and harness manufacture
Maps
Medical supplies
Ship salvaging
Veterinarians
Wool and raw fur, mohair
Ship stores—Army post stores
Artificial limbs
Firearms and ammunition
Fumigation of steamships
Public utilities

over by government agencies through foreclosure of collateral to loans should be sold in the open market as fast as they can be absorbed by the security markets of the country without loss to the government and without disrupting the market for new capital issues. Proceeds of the sales to be used to retire the outstanding obligations of these agencies.

Efforts should be made to sell to private companies all plants, factories, machinery, equipment, etc., acquired or constructed by the government (except such as are necessary for national defense purposes). In case it is impossible to dispose of them at a fair price, efforts should be made to lease them to private enterprise. The income derived from such sales or leases should be applied to the retirement of the public debt.

Water-power developments, hydroelectric plants, and transmission lines already built or under construction should be sold or leased to private companies on terms that will safeguard our national interests and permit profitable operation.

A committee of business men, financiers, and technical experts should be appointed by the President to study those activities which cannot be disposed of in accordance with the above recommendations, and should make public report of its findings.

## Prospect for Utility Profits

"We do not think it is logical to assume that public utility companies will not increase their dividends during the present administration. That is an interesting theory, but is hardly in accord with the facts. Over the course of recent months, several public utilities have restored dividends on their preferred stocks. It is probable that as time goes on and earnings warrant certain companies with strong financial positions will actually increase their rates. . . .

"It is to be realized that dividends paid by public utilities do not necessarily indicate that rates ought to be reduced. The agitation for lower rates will probably continue regardless of dividends paid by public utility companies. The main point seems to be that directors will act in accordance with what seems to be their considered judgment as to the best interests of stockholders. If they think that profits ought to be paid out in the form of dividends, they will pay out those profits. It is hardly a matter that can be answered categorically.

"Probably the chief drawback to the payment of dividends is that there is no indication of what the administration will do as a means of reducing rates. In other words, public utilities may be recording good earnings, but fear of agitation for reduced rates may cause them to withhold increasing their dividends. In other words, the cause is different. Instead of refraining from increasing dividends because that would induce agitation for reduced rates, directors of some companies are likely to refrain from increasing dividends because of the agitation already existing for reduced rates."

—Editorial Statement,
*Financial World*, January 1, 1936.

# A Billion-dollar Year in Utility Financing

**Not since 1931 have the offerings of stock and bond issues equaled those of 1935 significance and problems**

By MERWIN H. WATERMAN

After an absence of three long years, an absence that caused much gloom and foreboding, the prodigal has returned. Not since 1931 had the security market seen a billion-dollar year in utility financing; then came 1935 with its offerings of stock and bond issues to indicate that utility financing was not dead. But as for the feasting, it was perhaps a bit too moderate to be called such; the fatted calf was not so plump as he might have been; and the rejoicing was, to say the least, subdued and not at all universal. In fact, the returning prodigal appeared in a form so changed and in a manner so different that his coming brought problems. It is the purpose of this article to examine the problems of this billion-dollar year and to attempt an interpretation of the significant characteristics of the year's utility financing.

In time to come it may well be that 1935 will be recalled by "utilitarians" as the year of the big redemptions, for these phenomena were quite as remarkable as the floods and quakes that have served to mark other years in the minds of those affected. This characterization is indicated because the billion-dollar year was a period in which over a billion dollars' worth of utility securities, largely bonds, were called by their issuers. Investors were asked to take back their money, or else. . . . Or else what? Or else subscribe to the billion dollars of new securities offered for sale with much lower interest rates.

As of December, 1934, Moody's estimate shows that there were approximately $14,720,000,000 of public utility bonds outstanding in the name of United States companies. Thus, the financial activities of the year 1935 may be said to have forced a turnover of 7.4 per cent in utility bond investments; this in addition to the normal maturities of the period. The call movement got under way late

in March of last year, when the Pacific Gas and Electric Company called $45,000,000 of its 5½ per cent bonds, for which is substituted capital costing it 4.15 per cent.

Gradually the momentum of the procedure increased, with two issues offered in April to finance redemptions, two in May, five in June, and ten in July. The offerings reached a peak of thirteen in September, and October and November also saw considerable call financing, but December was necessarily quiet in view of the midst of legal indecision surrounding utility registrations under the Holding Company Act, the only significant issues being those of Southwestern Bell Telephone Company and Southwestern Gas and Electric Company. The former, being a telephone company, is unaffected by the act, while the latter is a constituent of the one large utility holding company that chose to comply with the registration provisions of the law, namely, Middle West Corporation.

THE course of the bond market itself accounted largely for the scope and timing of these call offerings. The steady and almost uninterrupted rise in utility bond prices which began in September, 1934, brought money costs early in the year 1935 into the range where refunding operations would be profitable.

The accompanying Table I exemplifies in detail the effects of the year's refinancing on the individual issuing utilities, the totals and averages indicating the general effects on the industry and its investors. In the interpretation of these data, it is necessary to note that the amounts called do not coincide exactly with the amounts issued in replacement because in a number of instances the call was financed in small part out of the redeemer's treasury. Similarly, the "capital outlay," composed of par values plus premiums, is not a precise measure of financing done.

However, in the interest of consistency and comparability, the "new money rate" was applied to this "capital outlay" to determine the "new money cost," which, in turn, represents the annual interest these utilities would have had to pay had their refinancing simply replaced old capital contracts with new ones without adding to or subtracting from their treasury funds. The "new money rate" was computed to represent the rate of annual capital cost to the companies. It was based on the net proceeds of their security sales after payment of underwriting commissions but before other expenses of issue, such as registration expenses.[1]

WITH these minor though necessary qualifications in mind, we may proceed to the conclusion that, during 1935, the public utilities of the country effected a saving of over $10,900,000 per annum in capital costs by calling $1,064,250,725 of securities which had been requiring cash outlays at the average rate of 5.14 per cent per annum and substituting therefor new bond contracts the effective annual cost of which is, on the average, 3.93 per cent. To consummate this saving, the industry laid out nearly $50,000,000 in call premiums and incurred other expenses of issue in an

[1] Computation assumed life of issues based on maturity dates.

amount estimated to be $8,000,000.[2] In addition to the saving of $10,900,000 effected through new bond offerings, there was also a saving of $204,251 in preferred dividends effected by the preferred stock calls of the Cleveland Electric Illuminating Company and the Consolidated Gas, Electric Light and Power Company of Baltimore in their sale of lower rate preferred stocks. These changes were made at a premium cost of $1,528,170. In all, it may be said that there was a financial saving by the utilities of $11,122,301 per annum for an outlay of $51,462,996. Not a bad return on the investment.

THE most outstanding saving effected by refunding operations during last year was that of the Southern California Edison Company, which reduced its charges to the extent of $773,130 per annum or 46 per cent by replacing its 7 per cent preferred stock with 3.28 per cent money raised through its sale of serial debenture bonds. The low cost of new money in this instance was due, in part, to the high prices secured on the short-term end of the serials offered. Second prize goes to the Public Service Company of Northern Illinois with a 46 per cent reduction in interest costs through a private offering at 3.74 per cent cost to redeem its 7 per cent debentures at par. The apparent saving of 42 per cent to the New York and Queens Electric Company is just bookkeeping because the parent, Consolidated Gas Company of New York, saved as stockholder what it lost as bondholder of the $10,000,000 of 6 per cent bonds redeemed. A number of the savings may be attributed in part to the "clean-up" effected by redemption; companies such as Columbus Railway Power and Light, Los Angeles Gas and Electric, Ohio Edison, and Iowa Southern Utilities redeemed varieties of small expensive issues to substitute one large and more economical issue. The two small cost increases that developed in the year's redemption operations apparently reflected refinancing designed to bail out parent companies that had made subsidiary advances which they wished to recover.

EVIDENTLY there are two classes of persons vitally affected by the results of 1935 refinancing and by the possibility that such activity may continue in current and future months. Saving $10,900,000 in interest rates literally amounts to taking that sum out of the pockets of bond investors and putting it into the pockets of stock investors.

[2] Expenses reported for registered issues averaged .71 per cent of par. (See table on page 300.

¶ *". . . during 1935, the public utilities of the country effected a saving of over $10,900,000 per annum in capital costs by calling $1,064,250,725 of securities which had been requiring cash outlays at the average rate of 5.14 per cent per annum and substituting therefor new bond contracts the effective annual cost of which is, on the average, 3.93 per cent."*

First, let us consider the conditions and implications as relating to the stockholders, the common stockholders in particular. The effect on the earnings per share of the issuing companies' stock will depend in part on the accounting procedure adopted in each instance to provide for the unamortized bond discount and expense of the called issues and the amounts paid in call premiums. If both of these items are immediately charged to surplus, the effect will be to permit an immediate increase in share earnings. If the amounts are amortized gradually, the extent to which share earnings will be affected will be determined by the period of amortization. But aside from the accounting aspects, it is immediately evident that the cash outlay for premiums and expenses will absorb the annual savings for nearly six years, and after that time the results of 1935 call financing will add $11,100,000 to each year's earnings for common stockholders as compared with income prior to the calls.

THE value of this saving may be variously considered from the issuers' standpoint; it has reduced fixed charges and increased margins of safety to the betterment of their credit; it has provided a source of increased equity earnings in amounts ranging as high as $700,000 in one case and as high as $500,000 in a number of cases. In the aggregate the savings are worth some $348,802,025, assuming money to be worth 4 per cent and the effective period of the saving to average twenty-five years. It is most interesting to note that the stockholder beneficiaries of the year's financial activities will be, in 34 out of 63 cases, our old friends, the holding companies.

Now, view this matter from another angle and we see why all is not feasting and rejoicing; the stockholders' benefit is necessarily the bondholders' loss. True, the bondholders have received their premiums in case of call but the same figures used above may be used again to measure their sacrifice. They received $50,000,000 in payment for an annual cut of $10,900,000 in income. To institutional investors this call financing has presented a serious problem, as it has to anyone whose budget may have been tuned to the interest return on securities in his portfolio.

TO reinvest funds resulting from calls necessarily meant reinvestment at lower market rates: 20 per cent lower if we assume that the new investment was made in similar securities. In fact, it was this very necessity that catered to the success of the call financing; a relative paucity of investments suitable for institutional and trust fund commitments assured the utility issuers that the call funds would in a large measure come back to them through purchase of the newly offered issues.

There are things at once tragic and comic in anticipation of the future of these offerings. As the average maturity date of these 3½ to 4½ per cent bond contracts is twenty-seven years hence, what if, in that interim, there is either inflation or restoration of capital demands sufficient to raise interest rates to a normal (?) 1926 level? What will be the market price and how will the investors feel?

## A Great Year for Fixed Charge Reductions

*"THE year 1935 must have been an interesting year for utility financiers. Certainly it was the busiest one for many a moon. Probably the annual reports to utility stockholders will result in a number of lame arms caused by managerial self-congratulatory back slapping about fixed charge reductions. As a matter of fact, the market conditions of the year comprise a more likely justification for condemnation of those who, being in a position to do so, failed to take advantage of the low interest rates."*

Imagine further, if you can, the conditions under which it will be profitable for the Southern California Edison Company to call its recently issued $73,000,000 of 3¾ per cent bonds at 107½ or for the Pacific Gas and Electric Company to call its $40,000,000 of 4 per cent bonds at 110. Those are the top call prices on the issues named, and what a protection they offer the investor! Of course, the practical factor accounting for the issuers' willingness to include such high call premiums is the improbability that such cheap contracts will ever be called; if they are, it will be in a money market strange to behold.

THERE are other high lights in the utility financing of 1935 that are worthy of mention, and Table II has been prepared to summarize a number of characteristics that appear from an analysis of the year's offerings. The data in Table II are representative of all new financing done by gas, electric, telephone, and electric railway companies in the United States during the calendar year 1935. They include the offerings, both public and private, of those utilities whose securities were offered or sold to anyone except parents of issuing companies, and thus they are designed to represent only the instances where capital was sought by the issuers from outside investment sources.

In the writer's summary of 1934 financing, note was made of such costs as accrue from compliance with the Securities Act.[3] The continuance of regulatory jurisdiction over public offerings signifies the continuance of such costs—both in terms of worry and in terms of dollars. During 1935, in the fifty-two cases of regis-

[3] PUBLIC UTILITIES FORTNIGHTLY, Vol. XV, No. 6, pp. 275–284.

## Table

### DETAILS OF PUBLIC UTILITY

| | | Called Issues | | |
|---|---|---|---|---|
| | *Bonds* | *Amount* | *Interest Rate* | *Interest Cost* |
| MARCH | Pacific Gas & Electric Co. | $45,000,000 | 5.50% | $2,475,000 |
| APRIL | Consol. Gas, Elec. Lt. & Power Co. of Balt. | 9,943,000 | 4.75 | 472,293 |
| | Southern Calif. Edison Co., Ltd. | 68,360,000 | 5.00 | 3,418,000 |
| MAY | San Diego Consol. Gas & Elec. Co. | 15,868,000 | 5.32* | 845,280 |
| | Temescal Water Co. | 600,000 | 6.50 | 39,000 |
| JUNE | Commonwealth Edison Co. | 29,500,000 | 5.09* | 1,502,500 |
| | Southern Utah Power Co. | 500,000 | 6.50 | 32,500 |
| | Consumers Power Co. | 2,582,000 | 5.00 | 129,100 |
| | Pacific Gas & Electric Co. | 32,928,500 | 5.00* | 1,646,425 |
| | Central Hudson Gas & Electric Corporation | 8,882,000 | 5.00* | 444,100 |
| JULY | The Cleveland Railway Co. | 4,709,000 | 6.00 | 282,540 |
| | Connecticut Light & Power Co. | 7,358,500 | 5.32* | 391,265 |
| | Consol. Gas, Elec. Lt. & Power Co. of Balt. | 7,326,000 | 4.50 | 329,670 |
| | Southern Calif. Edison Co., Ltd. | 32,000,000 | 5.00 | 1,600,000 |
| | Cleveland Elec. Illuminating Co. | 40,000,000 | 5.00* | 2,000,000 |
| | Duquesne Light Co. | 70,000,000 | 4.50* | 3,150,000 |
| | Associated Telephone Co., Ltd. | 8,300,000 | 5.00 | 415,000 |
| | Public Service Co. of Northern Illinois | 15,650,000 | 6.50 | 1,017,250 |
| | Northern Ohio Telephone Co. | 1,513,500 | 5.50 | 83,243 |
| | Southern Calif. Gas Co. | 14,816,000 | 5.21* | 771,650 |
| AUG. | Bangor Hydro Elec. Co. | 272,500 | 5.50 | 14,988 |
| | Public Service Elec. & Gas. Co. | 65,000,000 | 4.50 | 2,925,000 |
| | Camden & Rockland Water Co. | 800,000 | 5.00 | 40,000 |
| | Public Service Co. of New Hampshire | 5,400,000 | 5.00 | 270,000 |
| | Coast Countries Gas & Elec. Co. | 4,000,000 | 5.00 | 200,000 |
| | Muncie Water Works Co. | 600,000 | 5.00 | 30,000 |
| SEPT. | Savannah Elec. & Power Co. | 2,648,400 | 6.88* | 182,393 |
| | Philadelphia Suburban Water Co. | 16,230,500 | 4.87* | 796,630 |
| | Southern California Edison Co., Ltd. | 23,950,725 | 7.00 | 1,676,551 |
| | Southern California Edison Co., Ltd. | 29,300,000 | 5.00 | 1,465,000 |
| | Consumers Power Co. | 15,872,000 | 5.00 | 793,600 |
| | Connecticut Power Co. | 1,685,500 | 5.00 | 84,275 |
| | Pacific Gas & Elec. Co. | 20,225,000 | 5.00 | 1,011,250 |
| | Detroit Edison Co. | 49,000,000 | 5.00 | 2,450,000 |
| OCT. | Atlanta Gas Light Co. | 3,967,000 | 6.00 | 238,020 |
| | Long Island Lighting Co. | 1,419,600 | 5.00 | 70,980 |
| | Pacific Lighting Corporation | 9,769,000 | 5.00 | 488,450 |
| | The Dayton Power & Light Co. | 18,860,000 | 5.00 | 943,000 |
| | Illinois Bell Telephone Co. | 48,726,200 | 5.00 | 2,436,310 |
| | Pennsylvania Telephone Corporation | 5,200,000 | 5.00* | 260,000 |
| | Virginia Elec. & Power Co. | 32,694,000 | 5.00* | 1,634,700 |
| | Blackstone Valley Gas & Elec. Co. | 6,114,000 | 5.00* | 305,700 |
| | Columbus Railway Power & Light Co. | 19,877,300 | 4.72* | 938,363 |
| NOV. | New Haven Water Co. | 1,950,000 | 4.50 | 87,750 |
| | Orange & Rockland Elec. Co. | 1,250,000 | 5.00 | 62,500 |
| | Missouri Telephone Co. | 700,000 | 6.00 | 42,000 |
| | Public Service Co. of Northern Illinois | 9,570,000 | 7.00 | 659,900 |
| | Monongahela West Pennsylvania Pub. Serv. | 22,993,900 | 5.35* | 1,223,050 |
| | Central Maine Power Co. | 15,061,500 | 5.10* | 768,690 |
| | Los Angeles Gas & Elec. Corporation | 37,181,500 | 5.48* | 2,037,938 |
| | Ohio Edison Co. | 43,115,500 | 5.51* | 2,374,153 |
| | Public Service Co. of New Hampshire | 10,379,000 | 4.50 | 467,055 |
| | Iowa Southern Utilities Co. | 4,937,500 | 7.30* | 360,334 |
| | Kansas Power & Light Co. | 25,662,100 | 5.77* | 1,480,066 |
| | California Water & Telephone Co. | 1,566,000 | 5.72* | 89,555 |
| | New York & Queens Electric Light & Power Co. | 10,000,000 | 6.00 | 600,000 |
| | Metropolitan Edison Co. | 11,710,900 | 5.00 | 585,545 |
| DEC. | Lockhart Power Co. | 1,423,500 | 6.00 | 85,358 |
| | Southwestern Bell Telephone Co. | 48,836,600 | 5.00 | 2,441,830 |
| | Biddeford & Saco Water Co. | 862,500 | 5.00 | 43,125 |
| | Southwestern Gas & Electric Co. | 19,602,000 | 5.18* | 1,014,822 |
| Totals for bonds called | | $1,064,250,725 | | $54,717,697 |
| Averages for bonds called | | | 5.14% | |

*Average on two or more called issues. Italics indicate opposites.
1 Principal plus premium.
2 Net cost of new money after bankers' commissions, but before other expenses of issue.

# I

## BOND REDEMPTIONS—1935

| | | Results of Call Financing | | | | |
|---|---|---|---|---|---|---|
| *Call Price* | *Premium* | *Capital Outlay* 1 | *New Money Rate* 2 | *New Money Cost* 3 | *Annual Saving* 4 | *Per Cent Decrease in Annual Cost* |
| 105.00 | $2,250,000 | $47,250,000 | 4.15% | $1,960,875 | $514,125 | 20.77 |
| 105.00 | 497,150 | 10,440,150 | 3.80 est. | 396,726 | 75,567 | 16.00 |
| 105.00 | 3,418,000 | 71,778,000 | 4.00 | 2,871,120 | 546,880 | 16.00 |
| 103.60* | 589,020 | 16,457,020 | 4.11 | 676,384 | 168,896 | 19.98 |
| 102.00 | 12,000 | 612,000 | 5.37 | 32,864 | 6,136 | 15.73 |
| 103.79* | 1,115,000 | 30,615,000 | 3.98 | 1,218,477 | 284,023 | 18.90 |
| 88.75 | *56,250* | 443,750 | 7.40 | 32,838 | *338* | *1.04* |
| 105.00 | 129,100 | 2,711,100 | 3.89 | 105,462 | 23,638 | 18.31 |
| 104.06* | 1,340,881 | 34,269,381 | 3.88 | 1,329,652 | 316,773 | 19.24 |
| 106.00* | 454,460 | 9,336,460 | 3.61 | 337,046 | 107,054 | 23.88 |
| 104.00 | 188,360 | 4,897,360 | 5.13 | 251,235 | 31,305 | 11.08 |
| 106.40* | 471,173 | 7,829,673 | 3.80 | 297,528 | 93,737 | 23.96 |
| 105.00 | 366,300 | 7,692,300 | 3.55 | 273,077 | 56,593 | 17.17 |
| 105.00 | 1,600,000 | 33,600,000 | 3.97 | 1,333,920 | 266,080 | 16.63 |
| 104.24* | 1,695,000 | 41,695,000 | 3.72 | 1,551,054 | 448,946 | 22.45 |
| 104.43* | 3,100,000 | 73,100,000 | 3.53 | 2,580,430 | 569,570 | 18.08 |
| 106.50 | 539,500 | 8,839,500 | 4.24 | 374,795 | 40,205 | 9.69 |
| 105.00 | 782,500 | 16,432,500 | 4.67 | 767,398 | 249,852 | 24.56 |
| 105.00 | 75,675 | 1,589,125 | 4.38 | 69,606 | 13,637 | 16.38 |
| 103.39* | 500,090 | 15,316,090 | 4.06 | 621,833 | 149,817 | 19.42 |
| 105.00 | 13,625 | 286,125 | 3.89 | 11,131 | 3,857 | 25.73 |
| 104.50 | 2,925,000 | 67,925,000 | 3.50 | 2,377,375 | 547,625 | 18.72 |
| 102.50 | 20,000 | 820,000 | 4.52 | 37,064 | 2,936 | 7.34 |
| 105.00 | 270,000 | 5,670,000 | 3.70 | 209,790 | 60,210 | 22.30 |
| 105.00 | 200,000 | 4,200,000 | 4.00 | 168,000 | 32,000 | 16.00 |
| 100.00 | –0– | 600,000 | 5.15 | 30,900 | *900* | *3.00* |
| 103.29* | 87,282 | 2,735,682 | 5.24 | 143,350 | 39,043 | 21.41 |
| 103.36* | 546,948 | 16,777,448 | 4.06 | 681,164 | 109,466 | 13.85 |
| 101.50 | 3,592,609 | 27,543,334 | 3.28 | 903,421 | 773,130 | 46.11 |
| 105.00 | 1,465,000 | 30,765,000 | 4.00 | 1,230,600 | 234,400 | 16.00 |
| 104.00 | 634,880 | 16,506,880 | 3.67 | 605,802 | 187,798 | 23.66 |
| 107.50 | 126,412 | 1,811,912 | 3.67 | 66,497 | 17,778 | 21.10 |
| 105.00 | 1,011,250 | 21,236,250 | 4.00 | 849,450 | 161,800 | 16.00 |
| 105.00 | 2,450,000 | 51,450,000 | 3.91 | 2,011,695 | 438,305 | 17.89 |
| 102.00 | 79,340 | 4,046,340 | 4.81 | 194,629 | 43,391 | 18.23 |
| 105.00 | 70,980 | 1,490,580 | 4.00 | 59,623 | 11,357 | 16.00 |
| 101.00 | 97,690 | 9,866,690 | 4.82 | 475,574 | 12,876 | 2.64 |
| 105.00 | 943,000 | 19,803,000 | 3.67 | 726,770 | 216,230 | 22.93 |
| 105.00 | 2,436,310 | 51,162,510 | 3.48 | 1,780,455 | 655,855 | 26.92 |
| 104.83* | 251,500 | 5,451,500 | 4.12 | 224,602 | 35,398 | 13.61 |
| 104.07* | 1,332,480 | 34,026,480 | 4.07 | 1,384,878 | 249,822 | 15.28 |
| 103.06* | 186,940 | 6,300,940 | 3.98 | 250,777 | 54,923 | 17.97 |
| 105.00* | 983,865 | 20,861,165 | 4.03 | 840,705 | 97,658 | 10.36 |
| 104.69* | 91,500 | 2,041,500 | 3.80 | 77,577 | 10,173 | 11.59 |
| 105.00 | 62,500 | 1,312,500 | 4.00+ est. | 52,500 | 10,000 | 16.00 |
| 96.00 | *28,000* | 672,000 | 5.70 | 38,304 | 3,696 | 8.80 |
| 100.00 | –0– | 9,570,000 | 3.74 | 357,750 | 302,150 | 45.78 |
| 104.80* | 1,103,395 | 24,097,295 | 5.06 | 1,219,323 | 3,727 | 0.30 |
| 104.77* | 719,171 | 15,780,671 | 4.20 | 662,788 | 105,902 | 13.78 |
| 105.28* | 1,961,758 | 39,143,258 | 4.03 | 1,577,473 | 460,465 | 22.59 |
| 104.72* | 2,137,337 | 45,252,837 | 4.18 | 1,891,569 | 482,584 | 20.33 |
| 103.00 | 311,370 | 10,690,370 | 3.71 | 396,613 | 70,442 | 15.08 |
| 101.44* | 71,334 | 5,008,834 | 6.06 | 303,535 | 56,799 | 15.76 |
| 103.79* | 973,012 | 26,635,112 | 4.46 | 1,187,925 | 292,141 | 19.74 |
| 104.41* | 68,993 | 1,634,993 | 5.20 | 84,968 | 4,587 | 5.12 |
| 100.00 | –0– | 10,000,000 | 3.50 | 350,000 | 250,000 | 41.67 |
| 105.00 | 585,545 | 12,296,445 | 4.00 | 491,858 | 93,687 | 16.00 |
| 101.34* | 19,050 | 1,442,550 | 4.90 | 70,685 | 14,673 | 17.19 |
| 105.00 | 2,441,830 | 51,278,430 | 3.47 | 1,779,362 | 662,468 | 27.13 |
| 102.50 | 21,563 | 885,063 | 4.30 | 38,058 | 5,067 | 11.75 |
| 103.07* | 601,398 | 20,203,398 | 4.32 | 872,787 | 142,035 | 14.00 |
| | $49,934,826 | $1,114,185,551 | | $43,799,647 | $10,918,050 | |
| 104.69 | | | 3.93% | | | 19.95 |

3 "New Money Rate" applied to "Capital Outlay."
4 Difference between old "Interest Cost" and "New Money Cost."

tration and sale of bonds where expenses were reported, the average "expenses" amounted to .71 per cent of the par value of the issues, this measuring the difference between the gross amounts received from the bankers and the net amounts available for use. The range of these costs was from a high of 5 per cent for the Missouri Telephone Company's small issue of $700,000 to a low of .38 per cent for the $53,000,000 issue of the Edison Electric Illuminating Company of Boston.

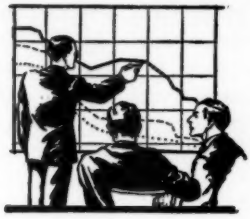
ALTHOUGH there were too few issues in 1934 to provide a significant average with which to compare the .71 per cent of 1935, it is the writer's opinion, based on observation of the individual cases with due allowance for unusual situations, that the costs in 1935 were less onerous than in the previous year. This was due, undoubtedly, to two factors: the Securities and Exchange Commission succeeded in modifying the expense of registration through amendments to registration and prospectus requirements; and, perhaps more important, issuing companies and their "experts" became more expert in effecting compliance with the Securities Act. It is noticeable that those companies issuing for the first time under the Securities and Exchange Commission's jurisdiction find the procedure relatively more costly than those issuers who have occasion to "repeat" with issues of comparable size.

It has been, is, and will continue to be true that the expenses of registration are of such a character that they comprise a relatively large percentage of small issues. This fact will continue to be an incentive for private financing such as that which characterized 1934 issues and which continued in a considerable dollar amount in 1935.[4]

CONSIDERATION of underwriting costs leads us to the general question of the investment bankers' participation in the 1935 revival of utility financing. Records show that in 1934 bankers were in on less than 50 per cent of the long-term bond offerings, participating in only $55,465,000 par value of bonds distributed. To this figure may be added their participation in $63,500,000 of note financing, but, all in all, 1934 was a slim year for the bankers both in dollars and in the proportion of the business which they shared. In previous years they had been accustomed to handle 88 to 99 per cent of debt offerings and, in addition, about 30 per cent of stock offerings when there were any. But with the advent of 1935 the investment banker came back, or, to maintain our "prodigal" analogy, the business came back to him. Ninety-one per cent of the year's billion-dollar offerings went through his hands, including $1,141,692,900 of bonds and $15,701,947 of stocks.

Here again, however, there is reason to believe that joy did not reign unconfined. The billion-dollar business grossed the participating investment bankers less than $25,000,000, showing an average spread of 2.25 points on bond sales. Statistics are not generally available to the outside in-

[4] In 1934, private offerings totaled $65,843,000 or 35 per cent of total financing; the amount in 1935 was somewhat larger, $96,282,000, but constituted only 7.71 per cent of the year's total.



## Table II

### SUMMARY CHARACTERIZATION OF 1935 UTILITY FINANCING

| | *Debt Financing* 1 | *Equity Financing* 1 | *Total Financing* 1 |
|---|---|---|---|
| Amounts | $1,248,934,900 | $28,990,847 | $1,277,925,747 |
| Per cent of total financing | 97.73 | 2.27 | 100.00 |
| Average maturity | 27.22 years | ... | .... |
| Average yield | 3.82% | 4.53% Pref. only | .... |
| Average cost | 3.96% | 4.60% Pref. only | .... |
| Bankers' spreads and expenses of issue: | | | |
| Amount registered with SEC | $1,101,013,900 | $23,990,847 | $1,125,004,747 |
| Per cent of total offerings | 88.16 | 82.75 | 88.03 |
| Issues reporting expenses | $1,069,081,400 | $23,990,847 | $1,093,072,247 |
| Expenses reported on above | $7,632,398 | $169,091 | $7,801,489 |
| Expenses as per cent of par value | .71 | .70 | .71 |
| Amounts underwritten | $1,091,038,900 | $15,701,947 | $1,106,740,847 |
| Underwriters' fees | $24,592,344 | $314,039 | $24,906,383 |
| Average spread | 2.25% | 2.00% one issue | 2.25% |
| Method of distribution: | | | |
| Investment banker | $1,141,692,900 | $15,701,947 | $1,157,394,847 |
| Per cent of total offerings | 91.41 | 54.16 | 90.57 |
| Private sale | $96,282,000 | –0– | $96,282,000 |
| Per cent of total offerings | 7.71 | | 7.53 |
| Privilege subscription | $4,475,000 | $13,288,900 | $17,763,900 |
| Per cent of total offerings | .36 | 45.84 | 1.39 |
| Exchange financing | $6,485,000 2 | –0– | $6,485,000 2 |
| Per cent of total offerings | .52 | | .51 |
| Purpose of issue: | | | |
| Expansion | $17,659,109 | –0– | $17,659,109 |
| Per cent of total offerings | 1.41 | | 1.38 |
| Funding | $48,897,588 | $8,288,900 | $57,186,488 |
| Per cent of total offerings | 3.92 | 28.59 | 4.47 |
| Refunding | $1,169,423,203 | $20,701,947 | $1,190,125,150 |
| Per cent of total offerings | 93.63 | 71.41 | 93.13 |
| Refinancing | $12,955,000 | –0– | $12,955,000 |
| Per cent of total offerings | 1.04 | | 1.02 |
| Issuer: | | | |
| Parent company | $10,000,000 | –0– | $10,000,000 |
| Per cent of total offerings | .80 | –0– | .78 |
| Sub-holding company | –0– | –0– | –0– |
| Per cent of total offerings | –0– | –0– | –0– |
| Operating company | $1,238,934,900 | $28,990,847 | $1,267,925,747 |
| Per cent of total offerings | 99.20 | 100.00 | 99.22 |
| Retirement provisions in debt issues: | | | |
| Serial and sinking fund | $898,880,000 | | |
| Per cent of total offerings | 71.97 | | |
| Maintenance fund | $118,859,900 | | |
| Per cent of total offerings | 9.52 | | |
| No provision for retirement | $231,195,000 | | |
| Per cent of total offerings | 18.51 | | |
| Security of debt issues: | | | |
| Mortgage | $1,185,864,900 | | |
| Per cent of total offerings | 94.95 | | |
| Collateral trust | –0– 3 | | |
| Per cent of total offerings | –0– 3 | | |
| Debenture | $63,070,000 | | |
| Per cent of total offerings | 5.05 | | |

1 Reported at par or liquidation values.
2 Extension of maturity by Portland General Electric Co.
3 A number of mortgage issues had their security supplemented with collateral, but there were no exclusively collateral trust issues.

vestigator to make possible a comparison of this spread with the profit margins that used to be worked on in "the good old days," but they are generally understood to have been much higher—nearly double the current spread for high-grade issues.

THE writer had access to an unpublished study from which he is willing to quote with confidence to the effect that one of the large investment houses was accustomed to enjoy an average margin of 3.5 points on high-grade public utility bonds, this for the years 1928 to 1932 when utility risks were considered low. At least it is apparent that the investment banking business in utility securities didn't make many millionaires in 1935 and that profit margins were relatively much smaller than in former years.

Of course, bankers' profits are affected not only by their gross margins but also by their costs of distribution and the risk they assume. On the latter score, 1935 gave bankers the breaks because they were working in an ideal sellers' market—one created for the most part, as pointed out above, by the very calls their offerings were designed to finance. Properly priced issues were overnight sales involving an absolute minimum of risk and salesman's shoe leather. A continuance of such a market and similar volume might make utility securities a source of real profit even on a two-point margin, but neither the market nor the offerings have been sufficiently normal to justify hope of long continuance.

WE do not yet have an answer to the interesting question of whether financial operations under the Securities Act, with its attendant requirements for publicity and rules of conduct, will effect a material and permanent reduction in bankers' margins. Investment houses should receive compensation in amounts representing the value of the functions performed by them. There is some ground for hoping that remuneration at current low margins is an indication that competition, publicity, and standardization of distribution methods will combine to prevent any undue contributions to either the inefficient or the unscrupulous members in "that gr-e-a-t fraternity, The Mystic Knights of Wall Street." [5] As a matter of fact, a relatively small number of houses participated in the 1935 underwritings. Those who did were presumably those best able to adapt their techniques and organization to handle business that was new and different as affected by the requirements of the isissuers, the market, and the Securities and Exchange Commission. It follows that, for a time at least, the low margin security business will be confined to the more efficient houses that survived the ravages of the depression, and existing conditions will tend to forestall entrance of new underwriters into the field.[6]

AS previously mentioned, the so-called private financing continued throughout 1935 in considerable dollar volume amounting to $96,282,000 or 7.71 per cent of total bond offerings. In addition to the issuers' wishes to avoid registration, one of the conditions favoring this method

[5] With apologies to the Kingfish and Amos and Andy.

[6] Old faces may appear under new names, as did those in Morgan, Stanley and Company, Inc.

of financing was the continued scarcity of satisfactory institutional investments. Banks and insurance companies, finding themselves unable to apply the principles of investment diversification in a market that afforded so little choice, continued to be willing to dicker for direct purchase of good-sized issues of single companies. Further, their inability to get concessions from market offering prices doubtless added another incentive for direct dealing.[7] In a number of instances these direct sales were facilitated by investment bankers acting as agents—an arrangement that at once added a small increment to the bankers' revenue and furnished bonds to large buyers at a price lower than they would have had to pay on the market or to an underwriting banker. Continuance of this technique of distribution would seem to depend on a continuance of the conditions which have brought it about.

THE year 1935 must have been an interesting year for utility financiers. Certainly it was the busiest one for many a moon. Probably the annual reports to utility stockholders will result in a number of lame arms caused by managerial self-congratulatory back slapping about fixed charge reductions. As a matter of fact, the market conditions of the year comprise a more likely justification for condemnation of those who, being in a position to do so, failed to take advantage of the low interest rates. Holding companies, with their main energies devoted to self-preservation, found time to guide and assist in most of the financing that took place, although 36 per cent of the amount of securities offered were of companies deserving the "independent" label.

Space does not permit a detailed analysis of all of the interesting features of the 1935 financing that are reflected in the data of Table II. Let it suffice that the reader's attention is called to the following outstanding characteristics:

(1) the predominance of mortgage bond offerings in spite of the fact that a lien on an unprofitable utility is about as valuable as a pari-mutuel ticket on a dead horse;

(2) the almost complete absence of holding company issues in face of the year's legislative enactments;

(3) the continuance of financing for expansion purposes at a nominal amount as the industry awaits settlement of government attitudes on regulation and public ownership;

(4) the timid appearance of equity financing by three strong companies,

[7] The Code of Fair Competition for Investment Bankers, still observed in substance although its legal status died with the NRA, prohibits participation in selling groups and syndicates by other than those "actually engaged in the investment banking business."

¶ "EVIDENTLY *there are two classes of persons vitally affected by the results of 1935 refinancing and by the possibility that such activity may continue in current and future months. Saving $10,900,000 in interest rates literally amounts to taking that sum out of the pockets of bond investors and putting it into the pockets of stock investors.*"

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¶ "EVIDENTLY *there are two classes of persons vitally affected by the results of 1935 refinancing and by the possibility that such activity may continue in current and future months. Saving $10,900,000 in interest rates literally amounts to taking that sum out of the pockets of bond investors and putting it into the pockets of stock investors.*"

Cleveland Electric Illuminating, Consolidated of Baltimore, and Boston Edison; and

(5) the existence of the lowest money rates in years, which prompted most of the 1935 offerings but did so without material benefits in terms of "recovery."

Perhaps the return of the prodigal in 1935 is not so important in itself as in the improved conditions which it portends. After 1935 comes 1936, and, faced with the impossibility of forecasting events in an industry so buffeted by political influences, one can only conclude with a wishful thought that the new year will be a happy one for the utilities.

## New Kinks in the Utility Game

WATER: When the Cincinnati water department wants to find out about leaks, it sends out an employee with headphones and a radio to "listen" for them. The device, perfected by one of the department's valve men, starts to sizzle as the worker approaches the leak and sounds like Niagara Falls when he gets directly over it. The contraption is so sensitive that one waggish waterworks official claims that with it he can hear promissory notes drawing interest. Business surely must be quiet in Cincinnati.

* *

GAS: Beer has long been known to contain gas, but now the Germans are putting it in their milk. Seriously, Theodor Hofius, an inventor of Duisberg, claims his gas of a "secret composition" is keeping German milk and other dairy products fresh eight weeks "without chemicals or refrigeration." The process has been patented in 23 countries and Germans are beginning to drink gassed milk in large quantities. No jokes about the Nazis, please.

* *

POWER: The New Deal's art department went to work on Boulder dam late last fall, painting imitation lightning on the walls of the power house, drawing lizards, plumed serpents and birds on the floor, and tinting the machinery in ten harmonious colors. It should be the prettiest power house in all the world, with warm blue flywheels, canary yellow generators, and turquoise pump, etc. One wonders, however, if TVA will let that record stand. Don't be surprised if Norris dam is prettied up some day with a black Power Trust Dragon dormant beneath a pink St. George rampant.

* *

TELEPHONES: We have the word of a hitherto esteemed and respectable publication that the "New York Telephone Company furnishes left-handed telephones to those who want 'em." After spending some hours of intense meditation trying to figure what in the world the difference might be, one editorial assistant gave up and went back to cutting paper dolls and counting his fingers. As far as he was concerned, left-handed phones belong in the same category with the left-handed monkey wrench, the correspondence school cheer leaders, and the key to the city.

# Remarkable Remarks

*"There never was in the world two opinions alike."*
—MONTAIGNE

B. C. FORBES
*Editor, Forbes.*

"Toppling of the New Deal doesn't remotely mean that the United States must topple with it."

STATEMENT
*The Evening (Wash. D. C.) Star.*

"When the Federal government lies down with a state government it is like the wolf lying down with the lamb."

JOHN BAUER
*Public Utility Editor, The People's Money.*

". . . the power companies have practically stood pat. With some exceptions, they have held to pre-depression rates."

GEORGE HENRY PAYNE
*Federal Communications Commissioner.*

"Our relationships with the companies under our regulation are marked by amiability that almost may be considered dangerous."

DAVID E. LILIENTHAL
*Director, Tennessee Valley Authority.*

"If the TVA yardstick does no more than point to the need for mass consumption pricing principles, it may become a real asset to the country."

COLBY M. CHESTER
*President, National Association of Manufacturers.*

"Recovery is mainly a business matter. Yet while this supreme task of recovery is taxing it to the utmost, business is expected to counter the most critical attacks in its history."

JAMES M. LANDIS
*Chairman, Securities and Exchange Commission.*

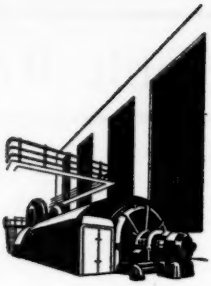
"Privacy as to individual income is an understandable concept. But in a public corporation, and our large corporations are truly public in character, privacy as to work done stands upon different footing."

RAYMOND MOLEY
*Editor, Today.*

"One can only hope that the present majority of the (Supreme) Court will not join other conscientious men of whom history records that they, in their blindness, helped to destroy what they most loved."

JAMES A. FARLEY
*United States Postmaster General.*

"In the ranks of our foes you will find not only the financial gangsters whose extortions were so largely responsible for bringing on the Hoover panic, but others who for one reason or another hate Franklin D. Roosevelt or who are accessories of the exploiters."



# Why Householders Do Not Use More Electricity

**It is not the rates for the service but the cost of financing appliances which, in the opinion of the author, constitutes the problem of increased consumption of current in most sections of the country. How consumption may be increased.**

By HERBERT A. WAGNER

THERE seems to be an impression in many minds today that lower electric rates for domestic service would result in increased consumption and possibly in increased earnings to the utilities. It is true that lower prices for some commodities have in times past brought about a greater consumption of such commodities.

Those who argue that a like result would follow a reduction in electric rates, which are in many of our cities already low, overlook the principal factor which influences consumption, which is the customer's ability to consume more electricity.

At present rates it is generally true that the consumer uses all he feels he needs, and consequently unless his needs grow he will use no more, even at a lower rate. In other words, the customer's use is governed more by his needs than by the cost of service. A lower price is not likely to lead to wastefulness.

The fundamental question is "How can the consumer increase his consumption?"

The answer is "Usually only by the use of more current-consuming appliances."

This being a fact which cannot well be disputed, the controlling factor affecting consumption is the ability of the consumer to purchase additional equipment.

In practically no case, even where rates are abnormally high, would a possible saving, by reason of a lower rate, finance the purchase of appliances for utilizing greater consumption.

The question of greater consumption is therefore a matter of purchasing power as related to appliances.

## WHY HOUSEHOLDERS DO NOT USE MORE ELECTRICITY

WHILE the average domestic consumption of electricity in many of our large cities, as obtained by dividing the total domestic consumption by the total number of consumers, may be stated as approximately 60 kilowatt hours per month, a consumer using this amount is not an average consumer. The most frequently occurring consumer is in the class using between 20 and 30 kilowatt hours per month, this class usually comprising about 30 per cent of the domestic consumers. As a rule, not over 50 per cent use over 40 kilowatt hours.

A consumer using 30 kilowatt hours would have an average monthly bill of, say, $1.50 per month, or 5 cents per day. In order to double this consumption the consumer would have to purchase and use an electric refrigerator or eight or ten minor appliances costing not less than, say, $140. If the purchase of these appliances could be made on the instalment plan over a period as long as three years, which would be an unusually favorable basis, the consumer would pay about 14 cents per day for three years to finance his purchase, and not over 5 cents per day for the additional electricity.

Thus, the cost of financing the appliances, without which he could not increase his consumption, would be more than his entire cost for his electric service.

Conversely, where a customer can afford to buy a number of appliances he can also afford to pay the rates prevailing in most places for electric service.

A lower rate would therefore not be conducive to greater consumption to those whose limited finances would prevent the purchase of appliances.

THE writer has always been strongly in favor of low rates, but, by experience as well as by the foregoing reasoning, he knows that much lower rates would not of themselves result in greater consumption or greater earnings to the utility supplying the service.

In many dissertations on this subject the fact has been brought out that in some sections of the country the domestic consumption averages far more than the average for the country at large and that in some of these sections the rates are extremely low. Other cases can be cited where

### Relation of Purchase Price of Household Electric Appliances to Monthly Bill for Electric Service

| | *Price range of appliance* | *Used* | *Monthly bill for electricity* | *If using the following consumption @ 5¢ per kw. hr.* |
|---|---|---|---|---|
| Refrigerator | $141.50 to $268.50 | Every day | $2.50 | 50 kw. hr. |
| Washer | 49.95 to 125.75 | Family wash | .15 | 3 " " |
| Ironer | 39.95 to 95.50 | Family wash | .60 | 12 " " |
| Vacuum cleaner | 17.70 to 59.95 | When needed | .10 | 2 " " |
| Radio | 20.20 to 131.30 | 4 hours daily | .75 | 15 " " |
| Electric iron | 2.70 to 9.05 | Family wash | .35 | 7 " " |
| Mixer | 14.95 to 22.75 | When needed | .15 | 3 " " |
| Clock | 3.98 to 10.05 | All the time | .10 | 2 " " |
| All the above | $290.93 to $722.85 | | $4.70 | 94 kw. hr. |

## Effect of Cost of Appliances on Use of Electricity

*"ALL the facts when analyzed lead inevitably to the conclusion that greater electricity consumption per customer is principally a question of purchasing power as referred to increases in consumers' installations of current utilizing devices, and is not primarily nor largely a matter of electric service rates in most sections of our country."*

the consumption is greater than the average and also the rates are considerably higher. Such examples prove nothing.

In some sections of the country the average consumer is more well-to-do than in others and can afford to avail himself of more appliances, and in the arid districts water pumping is not only essential but is needed in large volume. In rural districts where average farms are small, electric service and appliances will hardly for a long time to come be in the necessity class. Only on large farms and after further organized activities to educate him in the advantages and economy of electric power and its application can the farmer be convinced that money can be saved by electrification. Such possible saving can apply only to labor and lead to less labor employment, which is hardly a feature to be emphasized at this time.

THE table of appliance costs and consumption costs on page 309 indicates plainly that the cost of financing appliances is immensely greater than the cost of electric service to operate them. The prices indicated are the usual range for appliances which meet laboratory requirements for safety, performance, and low upkeep.

THE increase which has been effected in domestic consumption is largely due to the refrigerators, which *city* people have used because they *save* money compared with buying ice—and this growth results from improvements in designing and practicalizing a machine suitable for household use. Whereas refrigerators did use 60 kilowatt hours per month originally, the use is now as low as 25 kilowatt hours per month on some new types.

The use of electric ranges and water heaters is still in the luxury class where gas is available in our cities and where wood or coal is available on the farm.

Electric appliances are usually sold in a market where "sales appeal" and

"style appeal" are the impelling purchase motives, rather than simplicity. Thus the fully enameled and style designed electric range with the addition of clock-controlled automatic features involves a higher purchase price.

Such a simple utilitarian device as an electric water heater is encumbered with things that increase the cost of getting hot water, as compared with the teakettle on, or the water reservoir in, the farmer's kitchen stove, supplied with water manually from the cold water tap in the kitchen.

Instead of a small electrically heated tank of the kitchen sink type, we find an amazing array of expensive equipment usually recommended. A hot water plumbing job is done from the cellar to the kitchen and to the bathroom. Sanitary plumbing and enameled bath and lavatory fixtures are installed. The tank is made of sufficient size to insure storage against all draughts of hot water and it is heat insulated, provided with pressure and temperature relief valves and thermostatic control.

Then in order to justify a low electric rate with restricted hours of heat supply, many electric companies require a series of additional gadgets and burdens such as separate wiring for independent metering and billing, time switch, additional wiring for a second heater element in the tank top connected to the regular house meter, and a 66 or 75-gallon size tank instead of a 30-gallon tank, in order to make up for the restriction in service hours.

ALL the facts when analyzed lead inevitably to the conclusion that greater electricity consumption per customer is principally a question of purchasing power as referred to increases in consumers' installations of current utilizing devices, and is not primarily or largely a matter of electric service rates in most sections of our country.

The simplification of design and the cost and methods of financing electric appliances are vital matters which should have the greatest possible attention and progressive thought on the part of utility management.

Greater customer consumption will make lower rates possible and inevitable, but this is the rational sequence, rather than the converse.

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## The Rheumatic Barber

A barber, limping about, crippled with rheumatism, was doing the best he could under the circumstances to keep at work in his shop.

"Joe," said a sympathetic customer one day, "have you done anything for your rheumatics?"

"I should say I have," replied the other with a groan. "I have done everything anyone suggested. I haven't just stuck to doctors. I still have hope."

"Good. What then is your latest remedy for the old aches?"

"Horse chestnuts—you know—carrying them around in my pocket."

"Really," remarked the customer with a shade of amusement. "Some of the old folks used to believe in that but I didn't suppose anybody took any stock in it in these enlightened days."

"Yes, I know," said the sufferer with a twinge. "It is well enough to talk like that but if you had what I have and had had it as long as I have you would eat ashes if someone told you it would do you any good."

* *

Almost any remedy suggested, no matter how foolish, looks good to sufferers during long periods of distress.

# Financial News and Comment

By OWEN ELY

## *"Care-free" TVA Statistics*

While press reports of David E. Lilienthal's recent talk before the National Retail Dry Goods Association seemed to indicate abandonment of the famous "yardstick" rate as a head-line catchword, possibly in deference to the pending Supreme Court decision, he continued to stress the importance of nation-wide rate reductions, holding forth the possibilities of a million new customers a year and $2,000,000,000 new expenditures for electrical equipment as among the benefits obtainable. The basis for these calculations was not explained but Mr. Lilienthal declared that utility managements had as yet given few signs of initiative or vision, due to "inflated capital structures" and "old-fashioned theories."

He cited the experience of three Commonwealth & Southern subsidiaries, Tennessee Electric Power, Georgia Power, and Alabama Power—which, he said, had reduced rates along lines recommended by the TVA. He stated that Tennessee Electric within five months had recovered all the revenue lost by the reductions and that all three companies in the twelve months ended October 31, 1935, had larger net incomes than in the corresponding period of the previous year.

But why did Mr. Lilienthal use figures for the period ending October when the November figures had been available for nearly a month? In November, Alabama Power Co. reported net income of $254,481 against $304,498 in the previous year, a decline of 16 per cent; and for the twelve months ended November 30th, $516,809 against $537,432 in the similar previous period. Net in October had shown a decline of 22 per cent, although the twelve months' figure was about 1 per cent or 2 per cent above the previous year. It would seem that, considering the average rise in utility earnings of about 10 per cent in 1935, Mr. Lilienthal rather "stretched" his analysis of the Alabama Power figures.

With respect to Tennessee Electric Power, it is true that net income for ten months showed a very slight gain; while October net was below last year, November showed a substantial gain. However, had depreciation been charged at the same ratio to gross in 1935 as in 1934, net for the twelve months ending October 31st would have shown a decline from last year, and the same would be true for the twelve months ended November 30th. Georgia Power made a much better showing, but this company was probably least affected by TVA. All three companies had excess capacity before the TVA program started; had the larger sales required new facilities, net would have been reduced.

The TVA report recently sent to Congress is also of statistical interest. It fails to mention interest, amortization, or depreciation for cost of plant, for which $75,000,000 in appropriations has been allocated. "Net income to reserve" of $169,233 was reported for the fiscal year ended June 30, 1935. Operating

revenues amounted to $563,469 of which, however, only $368,510 represented outside sales, the balance representing the use of power in connection with the Authority's general program. Revenues reflected sales from the Wilson dam only as the Norris dam power plant may not be ready for operation until next August.

It would, perhaps, be unfair to compare the press summary of the TVA figures with those of private utilities but it seems likely that proper allowance for depreciation, amortization, and interest on investment in use would have put the report "in the red." Since the TVA commissioners have previously indicated a desire to place their figures on a basis strictly comparable to those of private utilities (including an estimate for taxes) it is not clear why the report is not more illuminating regarding actual cost of power produced, especially if it is to be used as a basis for "yardstick rates" throughout the country.

Representative McLean has criticized the delay in issuing the report, which he thought should have been available in December, and threatens an investigation in the House of Representatives.

## *Two Hundred Companies Comply with Title II of Act*

PROMPT compliance of some 200 utility companies, including the Commonwealth & Southern subsidiaries, with the Federal Power Commission's order for monthly reports listing rate schedules, contracts, or agreements on power sold in interstate commerce, seems to indicate willingness of leading utility systems to comply with Title II of the Utility Act, despite continued opposition to the principles of Title I.

## *New Financing Continues Slow*

SOLE honors for utility financing in the fortnight ended January 31st were held by Cape & Vineyard Electric Co., which issued $750,000 1st serial 4s through Arthur Perry & Co., Inc., and Graham, Parsons & Co.

However, prospective February financing includes $17,500,000 New York State Electric & Gas Corporation 4s of 1965, probably on February 6th; $20,300,000 Connecticut River Power (operating subsidiary of N. E. Power Association) 1st 3¾s of February, 1961, on the 17th; and $16,000,000 Public Service of Oklahoma (Middle West Corp. system) 4s, 1966, and $2,000,000 Serial Debenture 4s (February 17th, Field, Glore & Co.).

The public service commission on January 30th authorized New York Edison Co., Inc., to issue $55,000,000 1st lien and refunding 3½s of 1966 to be sold at not less than par. Registration with the SEC was reported February 7th, for offering presumably February 27th.

## *Average Financial Ratios of Utilities*

UNDER the heading "Utility Ratios Show Healthy Finances," the *Electrical World*, in its annual review number, made the following statistical summaries, based on an analysis of 233 primarily electric companies: Net averaged about 17 per cent of gross, after depreciation reserves amounting to 9 per cent. An investment of $6 in plant, working capital, etc., was necessary to produce $1 of gross. Balance sheet surpluses averaged the equivalent of about a year's gross earnings.

## *North American Company— A Progressive System*

NORTH American Company's common stock remains one of the more popular of the medium-priced utility holding company stocks, judging from current market action. Selling around 29 (range during the past year about 9–30), the stock pays $1 to yield about 3½ per cent.

The company's consolidated income statements have for some years been characterized by increasingly liberal allowances for depreciation—that is, liberal in relation to gross earnings and plant account as compared with charges made by similar systems. In 1923 9.1 per cent of gross was set aside for depreciation, in 1929 10.6 per cent, and in 1934 13.1 per cent. In 1928 the depreciation reserve amounted to 12.4 per cent of property account, while in 1934 it had increased to 16.2 per cent; while the balance sheet also carried other reserves equivalent to an additional 8.7 per cent of property account.

Growth of net earnings per share of common stock was, over a period of years, retarded by the generous 10 per cent annual stock dividends. Net income available for common dividends increased 227 per cent during 1923–29, but due to the steady increase in stock, the share earnings increased only from $3.11 in 1923 to $4.82 in 1929, after which they gradually declined to $1.04 in 1934. The management held the stock dividend policy justified as a means to conserve cash for reinvestment in the operating companies of the system, thus reducing the amount of financing necessary to provide for the system's growth. With the slowing up of such growth during the depression, however, the dividend was changed January 1, 1935, to an all-cash basis.

EARNINGS per share for 1935 are estimated at $1.25, a gain of about 20 per cent over the previous year, and further recovery seems indicated for 1936.

As a result of the system's policy of voluntarily reducing rates, the chief centers served by operating subsidiaries have residential rates among the lowest in the country. Kilowatt-hour rates in Washington (where rates are automatically lowered as net income gains) range between 3.9 and 1.5 cents, with added cuts announced. In Cleveland the top rate is about 4 cents. Rates in St. Louis and Milwaukee are also considered low.

North American Co., through its intermediate holding company North American Edison Co., operates properties principally in Cleveland, St. Louis, and Milwaukee; through Washington Railway & Electric Co. and its subsidiary, Potomac Electric Power Co., it operates properties in and around Washington, D. C. It also has large investments in nonsubsidiary utilities, such as Pacific Gas & Electric (30 per cent) and Detroit Edison Co. (19 per cent), and in recent years has acquired a 74 per cent interest in North American Light & Power Co. (which, however, has not been considered strictly a part of the system).

Since the company's properties are not interconnected, it is possible that both North American Co. and North American Edison Co. might have to be dissolved, if the Utility Act of 1935 should be strictly enforced. Several months ago it was planned to dispose of the Washington property through public offering of the stock by a banking syndicate. The plan was abandoned owing to possible change in the rate of return (in connection with rate hearings).

WHILE the North American Co. is the "top" holding company in its system, the Harrison Williams interests have been interested at various times in the formation of investment companies with large holdings in North American common stock. Among these were Central States Electric Corporation (which originally controlled the Cleveland Electric Illuminating Co.); American Cities Power & Light Corporation and Electric Shareholdings Corporation.

Central States Electric Corporation, together with Goldman, Sachs Trading Corporation, sponsored the formation in 1929 of the Shenandoah Corporation (which in turn controlled Blue Ridge, another large investment trust), but in 1933 Atlas Corporation acquired control of the two trusts. Various changes in the relations of these trusts have since occurred, but they still have affiliations with the Harrison Williams group. In 1931 the Federal Trade Commission

reported that holdings of North American Co. stock by companies controlled either directly or indirectly by Harrison Williams aggregated 27.8 per cent of the total outstanding; it is not clear as to whether this percentage has been materially changed by later developments.

Recent acquisition of virtual control of the United Light & Power Company by six trusts identified with the Harrison Williams, Seligman, and Field-Glore interests is said to indicate the resumption of Mr. Williams' work as a builder of utility systems, according to the *New York Times*. The group had assets in excess of $350,000,000 at the end of 1935, indicating the possible scope of further operations in the utility fields.

### *Proposed Albany Legislation*

GOVERNOR Lehman of New York has proposed some major changes in the Public Service Law, and four bills have been introduced by Chairman Burchill of the committee on public service. One of these provides for progressive rate reductions every four years based on the relation between the net income of electric and gas companies and fair return "on properties used and useful." Another bill provides for approval by the public service commission of all operating, accounting, and financial contracts with affiliated companies, or officials and directors.

### *Traction Unification Project Moves Slowly*

WHILE tentative plans were completed nearly a year ago for acquisition by New York city of the BMT, and more recently of the IRT properties, so many officials, commissions, protective committees, etc., are involved in the negotiations that the project still faces considerable delay. The traction groups have now notified Mr. Seabury and Mr. Berle that the tentative agreements, which received such great publicity, are not satisfactory because of alleged lack of adequate protection for present holders of company securities. Judge Seabury may retire as special counsel for the board of estimate, it is reported, soon after the tentative plan is submitted to the transit commission for public hearings (as required by state law).

The situation has been complicated by the recent change in political complexion of the board of estimate, now dominated by Tammany Hall. The proposal to raze the Sixth Avenue Elevated Line without waiting for final unification has become a political issue. Mayor La Guardia and Judge Seabury have advocated it but several Democratic members of the board feel it unwise to gamble on a successful outcome of the unification negotiations. While engineering costs will be greatly reduced if the Sixth Avenue Elevated can be condemned and demolished before the new subway line underneath it is constructed, the city might then risk heavy damage claims by the Manhattan Company if the unification plan should fail.

BROOKLYN-Manhattan Transit Corporation has applied to the transit commission for permission to acquire from affiliated companies and from the public part or all of the remaining preferred and common stock of its traction subsidiary, Brooklyn and Queens Transit Corporation, in which it already has a large interest.

Third Avenue Railway Company is also seeking a merger with its six street railway subsidiaries, publicly held stock of the latter to be exchanged share for share for stock of a new company to be known as Third Ave. Transit Co. Creation of a new no-par stock will convert the combined corporate deficit into a book surplus. The bond structure of the system will be little affected, about the only change being that the refunding 4s and adjustment income 5s, now collaterally secured, would become direct mortgage liens. Intercompany funded debt would be eliminated. The system earnings continue disappointing.

### *Economist Foresees Enormous Electric Growth*

DR. Lionel Edie, president of Edie-Davidson, Inc., has made the following interesting comment on the possibilities of electric growth within the next few years:

> Every recovery involves certain basic changes in the industries which furnish the nation's power. The Industrial Revolution started with the steam engine, which introduced coal as a source of power. Every recovery cycle since that time has carried the industrial revolution into some new phase. The new phase in the present recovery is the outlook for cheap electricity and expensive oil, and this stands in contrast with trends during the twenties, when electricity was relatively high but when the East Texas oil field introduced surpluses and softening prices. During the decade of the thirties, the tendency is toward cutting electricity in half and doubling the price of oil. Cheap electricity means enormous growth in volume of consumption, which in turn means demand for electrical appliances and for heavy equipment. In power, this recovery is sharply different from the last one.

### *Companies Showing Largest Gains in Output*

CONSOLIDATED Gas of Baltimore has been a recent leader in its percentage gains in electric output over corresponding weeks of a year ago. During the past three months the company has been averaging about 25 per cent gain over last year. Detroit Edison, which in November showed gains of over 40 per cent, for the week ended January 18th reported only 8.7 per cent gain, both figures being affected by the changes in automobile activity due to different timing of new models.

Commonwealth & Southern has continued to make an excellent showing, with a gain of 17.4 per cent in the week of January 18th. Others that gained somewhat more than average were Electric Power & Light, American Water Works, Northern States Power, and Southern California Edison.

Just as carloadings reports help to forecast monthly earnings statements for the railroads, so the electric output figures are an interesting guide to the trend of earnings of the utilities, particularly as the great majority of systems do not issue reports for individual months and the cumulative reports do not always clearly indicate the current trend.

### *New Tax Laws Speed Elimination of Holding Company Subsidiaries*

TWO features of the Revenue Act of 1934 are expediting the general tendency to simplify holding company systems. One section bars consolidated income tax returns, in which it was formerly possible to deduct the losses of one subsidiary from the profits of another, and the second imposes the normal corporation income tax on 10 per cent of the dividends paid to a holding company by its subsidiary, which payments were formerly exempt. Moreover, the revenue act of 1935 (effective January 1, 1936) may furnish additional stimulus since it grants exemption from the tax on profits on property received through corporate liquidation.

Many large industrial companies, for tax reasons, are joining in the procession of utility companies reporting simplification of system structure. It has perhaps not been generally realized in the past that most industrial companies are holding companies, U. S. Steel, for example, having about 200 subsidiaries.

### *Gains in Utility Earnings Due to Refunding Savings*

ACCORDING to D. W. Ellsworth, editor of the *Annalist*, the utilities in 1935 enjoyed some advantage over the previous year due principally to (1) reduction of coal bills resulting from ending of the drought and restoration of hydroelectric service to its normal proportions; and (2) by the saving in interest charges through refunding of bonds—full effects of latter not being

evident until 1936, however. Mr. Ellsworth's estimated totals for the principal electric operating companies are as follows, for 1935 (000 omitted):

| | *Total* | *% Increase* |
|---|---|---|
| Electric operating revenue .. | $1,880,650 | + 4.5 |
| Revenue from other sources | 326,250 | + 3.3 |
| Total operating revenue .. | $2,206,900 | + 4.3 |
| Operation and maintenance | $990,250 | + 5.9 |
| Taxes ..... | 280,300 | + 4.1 |
| Retirements (depreciation) | 217,250 | + 5.0 |
| Total ..... | $1,487,800 | + 5.4 |
| Operating income ..... | $719,100 | + 2.1 |
| Non-operating income .... | 28,450 | + 7.5 |
| Total income ..... | $747,550 | + 2.3 |
| Interest, amortization, and other deductions ..... | 342,750 | — 1.9 |
| Net income ..... | $404,800 | + 6.1 |

## *Columbia Gas Announces $18,000,000 Pipe-line Project*

ON January 29th the U. S. District Court at Wilmington terminated the government's antitrust suit against Columbia Gas & Electric and others, and President Gossler announced plans to construct an $18,000,000, 300-mile pipe-line system to connect the Detroit Gas Company with the Panhandle Eastern Pipe-Line Company, completing previous plans to bring natural gas to Detroit. About $10,000,000 will be expended in 1936 on this project and about $15,000,000 on other electric and gas construction, bringing the total Columbia construction budget back to the pre-depression proportion.

Under the terms of the consent decree, Columbia Oil & Gasoline Corporation may retain ownership of the Panhandle stock, but it must be trusteed (thus ending direct control by Columbia, according to the Department of Justice, which hailed the decree as "a major antitrust victory"). Columbia Oil & Gasoline is to be immediately reorganized and the voting trust controlling it dissolved. Panhandle Eastern is also to be recapitalized. It is expected that the plan to be proposed by the Columbia interests will not only provide for financing completion of the Detroit project but will dispose of the damage suit against Columbia brought by the Missouri-Kansas receivers, in connection with the original financing of the Panhandle Company.

## *Cost of Electricity v. Cost of Government*

ACCORDING to Vice President Weadock of the Edison Electric Institute, the domestic customer's average bill for electricity is only about 9 cents a day, while the cost of all our political units of government is $1.37 per family per day—over 15 times as great.

Had the administration devoted 15 times as much energy toward the reduction of governmental costs as they have to the various efforts to reduce utility rates, might we not be considerably further on the road to recovery than we are?

Utilities are not only steadily lowering the average rate for the country as a whole, but they are bearing the heaviest burdens of rising government costs. Commonwealth Edison, for example, according to Chairman James Simpson, paid 13.8 cents out of every dollar collected from sale of electricity in taxes and in compensation to the city of Chicago in 1934; in 1935 14.8 cents, and in 1936 expects to pay 16.7 cents.

In New York city about $67,000,000 was collected for relief by special levies last year, and, in addition to their usual property taxes, the utility companies were called upon to pay some 27 per cent of these relief levies—a figure far out of proportion to the utilities' relative position in the business life of the city. Moreover, regular property taxes are to be increased by sharply higher assessments. If Mayor La Guardia is sincerely anxious for lower rates, why doesn't he suggest a removal of discriminatory taxes as the quickest way to obtain them?

# What Others Think

## The Holding Company Bill Upheld

REGARDLESS of how one feels about the matter, the fact remains that a majority of the discussion (legal and otherwise) that we find published about the Holding Company Act nowadays seem to assume that the Federal statute is unconstitutional in whole or in part. (Exception is made of official New Deal literature.) Perhaps this assumption is influenced to some extent by the informal opinions of counsel retained to fight the law and (more likely) by the sweeping opinion of Federal District Judge Coleman of Baltimore (10 P.U.R. (N.S.) 413) who swept the whole law into the judicial waste basket. In any event, reputable advance analysis sympathetic to the ultimate validity of the Holding Company Act does not appear to be plentiful.

Recently, however, the *Yale Law Journal* has ventured to comment on the constitutionality of this controversial piece of legislation and the conclusions are about as favorable to the New Deal as if the piece were written jointly by those distinguished young Harvard alumni, Messrs. Corcoran and Cohen. Almost two thirds (17 pages) of this interesting legal article is given over to a discussion of the background, foreground, and abuses of the holding company practice in the utility field. However, as this is in effect a rehash of the Federal Trade Commission's more elaborate studies brought down to date with references to more recent periodical literature, a description of this phase of the article would be of comparatively slight value to FORTNIGHTLY readers. It is under the heading, "Constitutional Problems Raised by the Act," that the *Journal* gets down to brass tacks in discussing the validity of the law in question.

BRUSHING aside unnecessary detours, the *Journal* declares that "any consideration of the constitutionality of the act must center, in the first instance, about § 4." It is this section which furnishes to holding companies the first point of contact with the act, because it makes unlawful various interstate activities for all holding companies unless registered in accordance with § 5—the registration provision. "If this § (4) is held inoperative," states the *Journal*, "the remainder of the act becomes largely valueless." It is conceded, however, that the converse of the proposition is not necessarily true.

Clearing up the easier objections first, the *Journal* states:

> The first of the prohibitions enumerated for unregistered holding companies is that against the sale, transportation, or distribution of electric energy across state lines. This activity is clearly one which falls within the sphere of Federal power. The means here chosen for the exercise of the power, namely, prohibition of interstate transmission unless certain conditions of regulation required by the public interest are complied with, seems unobjectionable. The further provision making it unlawful for any unregistered holding company to control a subsidiary which transmits electric power in interstate commerce appears to be justifiable on either of two grounds. It may be viewed as an essential means of effectuating the detailed regulation of interstate transmission provided for in Title Two, inasmuch as this latter regulation cannot be effective unless the holding company activities which determine operating costs and the stability of financial structure are subjected to supervision. Or the provision may be viewed as a regulation of activities which so directly affect or burden the interstate commerce in electric energy that they fall within the commerce power.

However, as comparatively few holding companies and their subsidiaries are engaged in actual interstate transmission of electric power, it was admitted that

the act would scarcely be effective unless interstate holding company control of intrastate utility operations were also supervised. To this end, the section forbids unregistered holding companies to use the mails or other instrumentalities of commerce in the distribution of its securities for sale or exchange. If this is sustained, the act would have real teeth, indeed.

THE *Journal* observes that restrictions on the use of the channels of commerce in an effort to prevent them from being used for socially undesirable purposes have been often employed by the Congress and sustained by the courts —an exercise of commerce power in the nature of police power. Witness the bans on interstate traffic in lotteries, narcotics, white slavery, prize-fight films, liquors, and stolen automobiles. Mere registration as a condition to such traffic in holding company securities would not, in the *Journal's* opinion, "militate against the validity of the prohibition if the registration provisions can be regarded as establishing a proper administrative scheme for determining what securities are unsound and therefore to be denied the use of the channels of interstate commerce."

However, the *Journal* concedes that the holding company registration would be more than a mere revelation of business matters, which, when published, would enable the investor to protect himself (such as required by the Securities and Exchange Act). The registration here subjects the registrant to an active and positive control of a Federal regulatory commission. The law, therefore, is obviously not merely to "exclude an article inimical to the public, but also to end corporate practices which made that article an instrument of harm." The *Journal* further concedes that if Congress had confined the act to an exclusion of securities regarded as evil under circumstances defined, the Lottery Case would apply; but when "the exclusion is a device to impose a scheme of affirmative regulation, a different situation is presented."

APPARENTLY, no case has been decided on the power of Congress not only to *exclude* but to prevent the *production* of the harmful article.

Yet the *Journal* states:

> The burden, then, of making this act legally and practically effective may shift to the remaining provisions of § 4. These close the channels of commerce, unless the holding companies are registered, to that cluster of activities surrounding intercompany contracts and the acquisition of any interest in, or the assets of other utility or business enterprises. The prohibition of these uses of the instrumentalities of commerce is the same in principle as that discussed with reference to security issues, lottery tickets, or prize-fights films; yet it is distinguishable on its facts. It varies from the situations previously considered in the fact that injury is not effected by such intercompany contracts until the public buys securities made infirm thereby, or purchases electricity, the rates and service of which reflect the intercorporate practices. Thus the injury is further removed from the prohibited interstate shipment than has been the case in any prohibition which has heretofore received judicial approval. If, however, the line of cases allowing exclusion is not to be extended to cover this added situation, the prohibition and the subsequent regulatory provisions may nevertheless be sustained as a direct regulation of interstate commerce by recognizing the commercial intercourse, implicit in the holding company control of subsidiaries in various states, as being interstate commerce. It is difficult to perceive any reason why this intercourse is not commerce in the legal sense, for there is a constant stream of interstate activity between members of a multi-state holding company system. It is primarily this stream of interstate activity which Congress has sought to regulate, the great bulk of the provisions of the act being closely identified with some transaction in or phase of this holding company-subsidiary commerce. The definition of interstate commerce in the act similarly is based on the proposition that the interstate holding company functions are commerce within the sphere of Federal control, and since commerce is intercourse, and not confined to the interchange of tangible things, nor limited to the relationships known to the framers of the Constitution, it seems broad enough to include the unique modern phenomenon of the complex business relationship between holding companies and their subsidiaries in other states. No definition of commerce heretofore propounded by the courts is so worded as to exclude the constant intercourse which characterizes this holding company relationship with its subsidiaries. The probable reason why such intrasystem relationships have not


*The Charleston Gazette*

LIBERTY AT THE CROSSROADS

been declared in the past to be interstate commerce is that the issue has never been before the court. . . . The business of the holding company is indistinguishable from that constant traffic in intelligence, instruction, and reports which was held in International Textbook Co. *v.* Pigg (correspondence school case) to be interstate commerce.

Viewed in this light, the business of a holding company is interstate commerce and regulations imposed on registered companies are "reasonably connected" with the interstate activities of such companies; to wit: security, property sales, contracts, and financial transactions—all "integral parts of the stream of holding company commerce." Therefore, to sustain § 4, it seems only necessary to establish that the tangible business transactions prohibited across state lines are interstate commerce.

It might be observed here, although

not discussed by the *Journal*, that a very similar attempt at constitutional interpretation failed in the Schechter Case.

THE remaining sections of the act give the *Journal* less trouble. They are "justified in the main as regulation of other aspects and types of holding company's commerce with members of its system." Where the regulation is admittedly one of intrastate activities, its "justification can come only from the fact that those activities cannot be dissociated from the interstate ones"—therefore, effective regulation requires control over both.

Aside from the commerce clause, however, the *Journal* finds that the bulk of the Public Utility Act is equally bottomed on the "postal power" of Congress under the Constitution. There is little precedent on this clause, although the *Journal* believes that the power of Congress over the mails might be even more extensive than its power over commerce since the former is proprietary and the latter merely regulatory. Here the *Journal* differs sharply with Federal Judge Coleman, who held that the act excludes communications from the mails of all kinds whatsoever, regardless of their inherent vice or the absence of it. The *Journal* believes that this question is not necessarily raised by the act, but that the act merely restricts "those uses of the mails which are recognized as being in pursuance of practices inimical to the public welfare." However, the *Journal* concludes that the power of Congress to exclude material from the mails is open to about the same objections as its power to exclude from the channels of commerce previously discussed and that "it is unlikely that, if the power is denied in one instance, it will be allowed in the other."

The controversial "death sentence" (§ 99) seems to give the *Journal* least trouble of all. It states in part as follows:

> The cases under the Sherman Act are adequate authority to establish that divestment and dissolution are not necessarily inconsistent with due process. It is material that § 11 does not provide for the wholesale elimination of holding companies, but is restricted to those which "unduly and unnecessarily" complicate the corporate structure or "unfairly and inequitably" distribute the voting power, nor is integration to be fully pursued if it can be obtained only at the sacrifice of operating economies. Thus the section seems to be directed solely at the elimination of those holding companies which serve no valid social or economic function, but which are useful only as instruments for the furtherance of the abuses which occasioned the instant legislation. Accordingly, the section appears to be a reasonable measure for the elimination of abuses, rather than an arbitrary or vindictive assault upon the holding company form of corporate organization.

Even so, it might be remembered that § 11 was softened considerably by Congress from the original text submitted by the administration. The article concludes by making short shrift of all the arguments against "delegation of powers" in the act and by adding some pretty compliments about the act as "well designed to preserve the benefits which can accrue to the public," by continued use of the holding company device *"if the Public Utility Act can survive the attacks made on its constitutionality."*

—E. S. B.

YALE LAW JOURNAL. January, 1936.

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# The Detroit Plan—A Modern Regulatory Device

FOLLOWING the consent decree recently entered in the United States district court of Delaware in the case of United States *v.* Columbia Gas & Electric Corporation, involving charges of restraint of competition, the defendant company announced plans for the construction of a 300-mile natural gas pipe-

line system at a cost of $18,000,000 to connect the Panhandle Eastern Pipe Line system (a Columbia affiliate) with the gas distribution system of the Detroit Gas Company. Inasmuch as the complaint of Detroit that it was literally getting the "run-around" on natural gas supply was the main count in the government's original case and inasmuch as this peaceful settlement now assures the Motor City of an ample natural gas supply in the future, attention is focused upon what arrangements Detroit has made on the receiving end for the regulation of this expanded utility service.

This city has not been idle, nor has its local utility—the Detroit Gas Company. They did not wait for natural gas to knock at the city gate before making regulatory plans for its reception. Instead, they agreed peacefully to an arrangement that has come to be known as the Detroit Plan. Most persons interested in utilities know at least this much from reading news items in the press and trade journals. Comparatively few, however, know exactly what the Detroit Plan is or how it works.

In the January issue of *Western Gas*, F. P. Fisher, the well-known consulting engineer who participated in the negotiations which resulted in the Detroit Plan, has given what is apparently the first authoritative analysis of the plan which has appeared in any periodical. As its name might suggest, the Detroit Plan appears to be a rather distinctive offspring of the celebrated Washington Plan of fixing rates under a profit-sharing sliding-scale agreement. The Washington Plan in turn was a lingering offspring of the old Boston sliding-scale scheme, and the Boston variety in turn traced its parentage across the Atlantic to the old English sliding scale for regulating gas company dividends. Thus it will be seen that the Detroit Plan is no fresh young upstart, born in the mind of some modern regulatory brain truster but traces its direct origin beyond the days of utility regulation itself in this country.

As the Washington Plan is perhaps better known generally because of the admitted success and attention that it has attained, a preliminary approach to and appreciation of the Detroit Plan might best be made by comparing the two plans. Mr. Fisher does not do this in his article but it strikes this reviewer as the simplest approach. In the two columns below, set in juxtaposition, are the main features of the Washington Plan and Detroit Plan, respectively.

It will be seen at a glance that the two principal variations between the two devices are: (1) In the Washington Plan an agreement on a frozen rate base is a necessary premise, while in the Detroit Plan the rate base is immaterial; (2) in the Washington Plan, excess earnings are returned to customers in the form of automatic rate reductions, while in the Detroit Plan the customers get their

| *Washington Plan* | *Detroit Plan* |
|---|---|
| RATE BASE: Fixed on an agreed amount. | RATE BASE: Neither fixed nor essential. |
| BASIC RETURN: Fixed at agreed *percentage* of rate base. | BASIC RETURN: Fixed at agreed *net amount* ($3,850,000). |
| EXCESS EARNINGS: Divided on a sliding-scale schedule between utility and consumers, with the latter's share increasing as the *percentage* rises. | EXCESS EARNINGS: Dividend on a sliding-scale schedule between utility and consumers with the latter's share increasing as the *net amount* rises. |
| DISPOSITION OF EXCESS: Returned to customers in the form of *rate reductions.* | DISPOSITION OF EXCESS: Returned to customers in the form of *cash dividends.* |
| ADDITIONS TO PROPERTY: Added to rate base and return percentage figured on revised base. | ADDITIONS TO PROPERTY: Additional basic return allowed at the rate of 7 per cent of new property cost. |

share in the form of cash dividend checks. On the other hand, the two main points of similarity between the two devices are: (1) Both make use of a sliding scale to limit utility earnings; (2) both make use of a profit-sharing arrangement whereby the customers participate in the excess.

THROWING the rate base entirely out of the Detroit Plan is perhaps the most daring and interesting innovation. After reviewing the usual arguments about the difficulties, expense, controversy, and uncertainties that bedevil the controversial process of valuation for rate-making purposes, Mr. Fisher gives further reasons for the provisions:

> One major objective in this agreement has been to eliminate such a valuation process from the current controversy. We have made most exhaustive studies of the books and records of the capital account of this property, have had trained engineers visit and inspect all of the visible elements of property, and have analyzed with great detail the books and accounting records of the company from 1898 to date.
>
> Our approach to an agreed rate of earnings of this company has been realistic rather than theoretical. For the purpose of securing the most effective development of a natural gas market in Detroit, it is necessary that this company should adopt vigorous measures, set high standards, and be financially in position to move rapidly and unhampered to the earliest possible development of a complete natural gas service. It should have good credit and a financial standing that would enable it to secure any needed sums of money advantageously and cheaply.
>
> The other side of the real picture is that the gas itself must be sold to Detroit consumers at the lowest possible prices to secure the full promotional value of low prices in developing a volume of business so large that overhead and investment charges against the service would fall as lightly as possible on each unit of gas handled. Our objective is, therefore, a large volume business by a sound financial company with the minimum selling price.
>
> From our study of the obligations, operating costs, and general financial history of this company, it is our conclusion that its financial health and standing would be impaired if, over a period of years, it would show less than the net profit we have set up in this memorandum as the "base earning." This "base earning" is not formulated as any relation to theoretical valuation.
>
> We are using a 7 per cent return on additional property which is to be specifically added in the course of natural gas service as a convenient and definite measure of future additions to the "base earning." This fact does not imply in general an approval of any principle of 7 per cent or any other definite per cent of return on all invested capital for the reasons just given.
>
> It is necessary to admit at this point that a conference for the purpose of establishing such a "base earning" between representatives of a utility and a city cannot succeed in an atmosphere of bitter controversy and recrimination that so often surrounds such issues. In order to arrive at an agreement, there must be a very high degree of open-minded fairness on the part of the conferees, and a still higher degree of confidence in these representatives by their respective principals.
>
> In such an atmosphere, with the realities considered frankly, and a spirit of fairness and willingness to make reasonable concessions, such a result is possible. The test of its success and propriety is whether, by means of such a finding, it is possible to secure a constructive promotional rate structure.

THE above rather considerable quotation extends into the technique of the Detroit Plan for fixing earnings on a net amount, rather than a percentage basis. The idea is obviously to get away from the difficulties of determining a formal rate base. But by what method was this base earning arrived at? That was probably the private concern of the negotiators of this interesting regulatory experiment. It seems inescapable, however, that some general estimates of the relation of the basic earning to the total property value must have had a leading part in the discussion.

Passing on to the "dividend feature," it appears that excess earnings above the basic earning figure of $3,850,000 (net after depreciation) will, under the Detroit Plan, be divided on a 50–50 basis in the manner already outlined, but only up to the excess limit of $550,000—(all annual figures, of course). Above $550,000, all excess is split 25–75 with the consumers taking the big end. Mr. Fisher contributes an interesting sidelight on this phase:

> On the basis of the "Detroit Plan" of an agreed "base earning" and a division which is shared between the consumers and the

company, the company is permitted to increase its own profits as a reward for decreasing the cost to the consumer. An increase in the volume of business, and reduced operating expense achieved by efficiency of operation, both act to increase the earnings available for division between the company and consumer.

It was suggested at one time by the gas company in these discussions that only a certain limited amount of excess earnings be thus divided and that all above that amount should go wholly to the consumer—for instance, that the first step of 50–50 division be followed by all earnings above that being distributed wholly to consumers. It was the writer's position on behalf of the consumers that this would, in a measure, defeat the purpose of the division of earnings, and while it was proper for the major proportion of the further excess earning to go to the consumer, it was of paramount importance to the consumers' interest to maintain an incentive to the gas company to increase its efficiency of operation and the volume of its business without limit.

The annual dividend to consumers (if any) is payable after the close of each fiscal year. Mr. Fisher does not discuss the method of "refunding" which has plenty of headaches in itself as regulatory authorities of Illinois, and the District of Columbia will concede after their experience of refunding impounded funds resulting from telephone rate litigation for Chicago and Washington, respectively. It has been suggested elsewhere that the expense, confusion, and possible discrimination that attend such distribution to such great numbers may possibly weight the scales in favor of the Washington Plan of automatic rate reduction, with its corresponding social benefits, but it is too soon for an outsider to be critical of this point until we see what happens in actual practice.

THE only provision made for actual rates in the Detroit Plan is summarized by Mr. Fisher as follows:

> That the initial domestic rate schedule will be formulated before the completion of the pipe line, taking into account the estimated earnings from all of the industrial and commercial sales of gas which it is possible to develop or soundly estimate during the period of pipe-line construction.

Elaborating on the term "promotional rates," Mr. Fisher refers to studies made by himself and his associates concerning Chicago gas rates in 1932, in which a "basis was developed for forecasting the normal amount of increase in the quantity sold that would follow a specific difference in price of gas to each class of service." The method used was a statistical analysis of sales experience as shown by available records. He added:

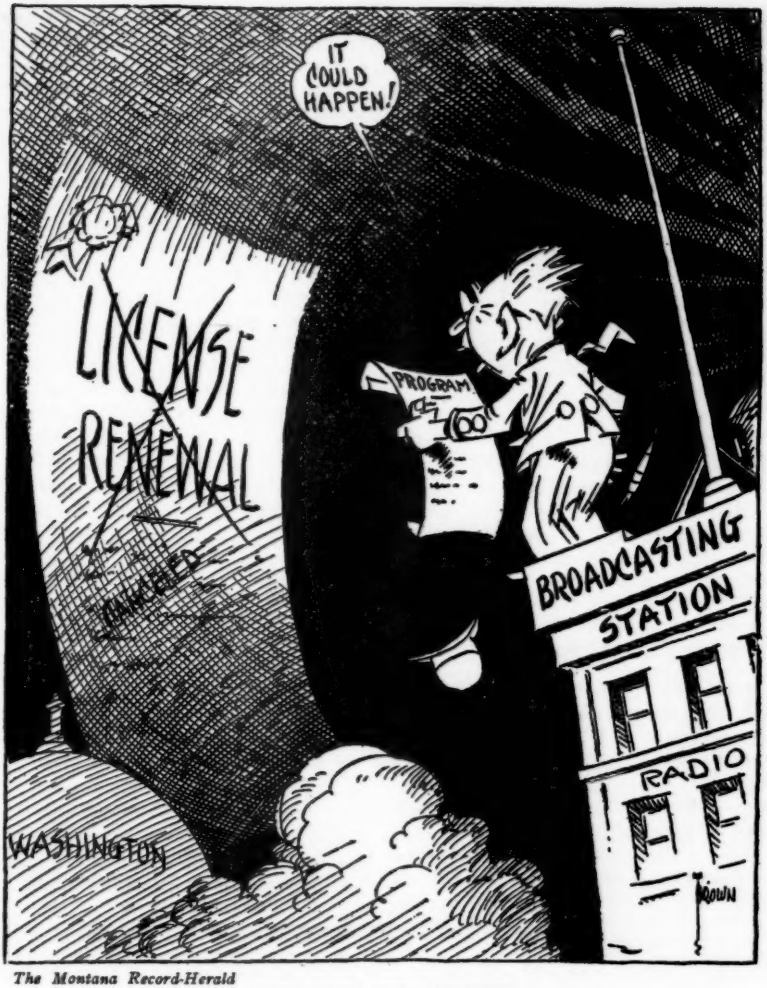
> It was found in this study that the product of these variable unit sale quantities by the rates to which they correspond could be plotted in turn as a curve representing revenue at different rates, and that these curves of revenue, in each instance, attained a maximum value somewhere in the vicinity of the lower price brackets and large unit volume of sales. This point of maximum revenue at low prices with large unit volume of sale is the point in price level down to which the utility selling the product and the public using the product share a common benefit in the reduction of prices. This creates a maximum incentive to both the public and the utility to find and use this price level for its rate schedule. It is in this definite sense that we refer to "promotional rates" in the "Detroit Plan."

The article concludes with a tribute to the high coöperative spirit shown by William G. Woolfolk and other officials of the Detroit Gas Company in the negotiations which finally gave birth to the Detroit Plan. It is, indeed, an ambitious and modern device. Its performance will be watched with interest by everyone concerned with utility regulation. —F. X. W.

THE "DETROIT PLAN." By F. P. Fisher. *Western Gas.* January, 1936.

## A Federal Commission Puts Power on the Map

IT isn't every day that Uncle Sam puts out a publication that is susceptible to the conventional review. Government literature is usually dry and specialized, absolutely necessary to those who are in the field covered, and as use-




*The Montana Record-Herald*

AND NOW, TELEVISION

less as a third leg for nearly everybody else.

The two utility maps recently compiled by the national power survey division of the Federal Power Commission may fairly be called exceptions. They are destined to be not only exceedingly useful to operating electrical interests (whether public or private) and government regulators, but also of interest and value to numerous groups outside of the trade; for example: economists, educators, various public officials, investment and banking interests, military authorities, and other utility and industrial groups.

The purpose of these two maps, respectively, is to show: (1) the service areas of the principal electric utility systems in the United States as of 1935;

(2) the principal generating plants and electric transmission lines of the United States as of 1935. Both are the first comprehensive maps of the kind based upon the official reports of the utilities that have been published in this country.

Pretty big fellows they are too. Map No. 1 is 51½ by 81 inches. Map No. 2 is 57½ by 84 inches, and if you decide to get these maps, you had better count on installing a pair of those hide-away rollers unless you have more open wall space than most offices afford. According to the commission, the map covers approximately 90 per cent of the industry, and one inch equals 40 miles (scale —1:2,500,000).

On Map No. 1, 57 major utility systems are identified, 8 large municipal systems, and 50 minor holding groups and independent operators, all represented in color. The systems shown include approximately 600 operating companies. On the margin, the systems are listed alphabetically, with the states in which the properties are located. Service areas are identified by key numbers, pattern designs, and sixteen colors.

Map No. 2 indicates 345 hydro plants (totaling 8,187,914-kilowatt capacity) and 709 full generating plants (totaling 22,350,114-kilowatt capacity). The location of central stations and 135,000 circuit miles are shown (including lines of 60,000 volts or over). Congested areas are clarified by enlarged inserts. A system of symbols and shaded lines indicate the size of generating plants and transmission line voltage. Property ownership is indicated by blue key numbers of companies listed on the legend.

Summing it all up, the commission's power survey branch has done such a thorough job on this difficult assignment that it is unfortunate something cannot be devised to keep the maps up to date. So far the commission has not indicated that subsequent editions will be issued and maps of this sort start to get out of date from the day you receive them. Even if there will be subsequent editions, it must be an expensive job for the commission (not to forget the old cash customers) to run off such a complicated color job every so often. One wonders if some method of getting out single state gummed inserts to take care of changes could not be worked out. That has probably been thought of long before now. Anyhow, for the present and the near future, the electric industry is enriched by the distinct contribution of an X-ray photo of its existence done in technicolor, so to speak.

—E. S. B.

Map No. 1. "Service Areas." Federal Power Commission, Washington, D. C. 51½" x 81", mounted on linen with rails, $10.00; unmounted in two sections, each 41¼" x 51½", $7.50.

Map No. 2. "Plants and Transmission Lines." Federal Power Commission, Washington, D. C. 57½" x 84", mounted on linen with reënforcing rails, $7.50; unmounted in two sections, each 44" x 57½", $5.00.

## A Reference Guide on the Holding Company Act

The hearings on the Wheeler-Rayburn Act before the committees on interstate commerce of the House and the Senate contain the views of leading utility executives, lawyers, economists, and government officials on practically every phase of utility regulation, management, and operation. It follows, therefore, that the value of the material is not confined to a consideration of the act, but will be useful to all those interested in the electric light and power, and gas industries. The questions which have been raised by the legislation will remain issues until satisfactory solutions are found. This thought was expressed in a recent report of the Investment Bankers Association

which stated that—"Whatever the final decision may be, the Public Utility Act marks not an end but a beginning."

To meet the need for easy access to this source material there has appeared a guide and index to the hearings. This book, which should prove a useful reference, contains:

1. A guide and index to the hearings on the Public Utility Act (dealing with holding companies and operating companies) in the House of Representatives and in the Senate.

2. A reprint of the Public Utility Act of 1935.

3. An index to the act.

4. A selected list of publications and magazine articles on the act and on related subjects.

5. A chronological record of the act.

THE preparation of this important reference book was under the direction of an economist familiar with the public utility industry, and a specialist of experience in the collection and organization of material in the power field.

—E. S. B.

GUIDE AND INDEX TO THE HEARINGS ON THE PUBLIC UTILITY ACT OF 1935. By Edward T. Bullock, Ph. D., and Otto J. Wieland. Indexing Service Company, 3745 74th Street, Jackson Heights, Long Island, N. Y. 1935. 176 pgs.

## Notes on Recent Publications

A CHALLENGE—NATIONAL AND REGIONAL ADVERTISING. By Herman Russell. *Gas Age-Record.* January 18, 1936.

It is all right, in Mr. Russell's opinion, to hold your position when you have a territory and are firmly entrenched, but the gas industry must climb out of the trenches and start pushing forward. It needs more ammunition in the form of effective advertising.

ARMAGEDDON FOR UTILITIES. By Herbert Lawrence. *Barron's.* January 6, 1936.

CAN THE RAILWAYS COME BACK? By Samuel O. Dunn. *The Magazine of Wall Street.* February 1, 1936.

CHALLENGE TO THE NEW DEAL. By Charles A. Beard. *Current History.* February, 1936.

COMMON SENSE AND THE CONSTITUTION. By Thomas R. Powell. *Current History.* February, 1936. (Mr. Powell is now professor of law at Harvard. Article written before Supreme Court decided AAA was unconstitutional.)

COMPANY UNIONS ON THE RAILROADS. By B. L. McKillips. *The Nation.* January 8, 1936.

DEVELOPING PERSONNEL TO CONTACT RETAIL INDUSTRIAL GAS CONSUMERS. By J. A. Morrison. *Gas Age-Record.* October 19, 1935.

FAILURE OF REGULATION BY PUBLIC SERVICE COMMISSIONS. By John Bauer. *The People's Money.* January, 1936.

FREIGHT BY HIGHWAY. *Fortune.* February, 1936. (How Federal regulation has increased the complexity of trucking problems. Keeshin Trancontinental Co. given as an example.)

INDUSTRY'S ATTACK ON THE NEW DEAL. By Charles A. Beard. *Current History.* January, 1936.

INSIDE A SENATE INVESTIGATION. By Senator Hugo L. Black. *Harper's.* February, 1936. (The mechanics of any investigation; different factors involved; various examples given.)

MODERN TENDENCIES IN PUBLIC UTILITIES. By Hans Staudinger. 2 *Social Research* 263. August, 1935.

The TVA experiment and the whole power policy of the present administration has been assailed under the slogan "socialization." The question, according to this author, is not one of displacing private activity in this field, but rather one of creating a system in which privately as well as publicly owned power industries can be operated in a more efficient manner. The Federal state can in the "national public interest" combine a really satisfactory local regulation with an adequate supply system throughout the whole country.

PLANT LEDGERS AND PLANT ACCOUNTING. By W. A. Hosmer. *Harvard Business Review.* Winter Number, 1936.

THE CRISIS AND THE CONSTITUTION. By James Winslow Adams. *Scribner's.* January, 1936.

# The March of Events

## Joins in "Consent Decree"

THE Justice Department announced last month that the Columbia Gas and Electric Corporation had joined the government in a "consent decree" providing for withdrawal of Columbia from "domination or control, direct or indirect," in the affairs of Panhandle Eastern Pipeline Company.

The government had charged the Columbia group with "owning, controlling, and dominating the operations of more than 70 subsidiaries," contending Columbia had "conspired to prevent the introduction of natural gas" by purchasing an interest in the pipe line of Panhandle Eastern and thereafter interfering with Panhandle's financial transactions and contracts. Panhandle had built a pipe line from the gas producing areas of Texas and Kansas to the Indiana border.

The court's decree, signed by District Judge John P. Nields at Wilmington, Del., and entered without a trial, perpetually enjoined Columbia Gas from any interference with the Panhandle Eastern's sale or delivery of natural gas anywhere in the country and from exercising any control in the management of Panhandle Eastern.

## Ordered to Register Lobbyists

NEW lobbying rules requiring registration of those seeking to influence government public utility policies were issued January 28th by the Securities and Exchange Commission. The rules apply only to persons working for holding companies. Since most major companies have refused so far to register pending a test of the Holding Company Act's validity, only a few were said to be affected.

The commission's rules require those employees of registered holding companies seeking "to influence the exercise of discretionary powers" by members of Congress or the Securities and Federal Power commissions, to report their activities. This report should include statements of what the employees may do, compensation, and expenses.

## Nation-wide Rail Consolidation

THE New Deal last month prepared the first drastic orders in a national railroad consolidation program designed to simplify the country's entire transportation system and save the carriers hundreds of millions of dollars.

Announcing that he was tired of urging the railways to take the initiative, only to be ignored, Joseph B. Eastman, Federal Transportation Coördinator, said he would order terminal consolidations within a short time in eleven cities. The orders would mean abandonment of numerous passenger stations, freight yards, and repair shops. Thereafter, he indicated, will come an avalanche of orders for other similar consolidations and perhaps unification of whole railroads, if his plan reaches full fruition.

Mr. Eastman said he had surveyed 5,000 terminals, where consolidations could be made profitably, with an ultimate saving to the railroads of $50,000,000. His plan, he said, is not to consolidate the roads into huge units or to stifle competition, but to enable the competing companies "to coöperate to mutual advantage where their interests are common."

He warned that if private enterprise "proves unable to do what the public interest requires," public ownership of the carriers "is inevitable," but he expressed the hope that Federal operation of railroads would not be necessary.

## Dominion Neutral

IT was reported with authority in government circles at Ottawa last month that Canada's Federal government will not move to disallow legislation passed by the Hepburn government canceling contracts concluded by Ontario's administration with Quebec power companies. An application for disallowance has been made by the Montreal Light, Heat & Power Company on behalf of certain Quebec power interests and, while the government is vested with the necessary authority, it was said to be showing no inclination to grant the request.

Apart from political considerations, there are few cases on record where a Federal government has interfered with provincial legislation deemed to be repugnant. In addition to this, when challenged during the election campaign, Prime Minister W. L. MacKenzie King is said to have declared his government would not interfere with provincial matters.

It was reported in informed circles that the power companies were not counting as much on the disallowance application as they were on the action they have started against the attorney general of Ontario.

# Alabama

## Rural Rates Lower

SPECIAL rates from the Alabama Power Company, sponsored by the Alabama Rural Electrification Authority and approved by the state commission, were put into effect January 28th for rural coöperative associations. The rates, with the commission retaining jurisdiction for possible revisions, were as follows:

"(a) Six dollars per month per mile of single-phase rural line owned and operated by the association and serving an average of four or less customers per mile, which charge shall include 200 kilowatt hours per mile. Such charges shall be increased at the rate of $1 for each customer in excess of an average of four per mile of such lines; plus

"(b) One cent per kilowatt hour per month for all energy delivered monthly to such rural lines in excess of 200 kilowatt hours per mile of such line."

# Arkansas

## Seeks Private Loan

A CHECK for $87,500 representing the initial allotment for Little Rock's $3,080,000 water supply project was reported to be on its way late last month by Mayor Overman, following his return from a conference at Washington with RFC and PWA officials. Mayor Overman said the $3,850,000 necessary to carry out the city's purchase of the Little Rock properties of the Arkansas Water Company could be obtained from the RFC through the PWA. However, he said he had not abandoned hope of obtaining the loan from private sources at a lower rate of interest than the 4 per cent required by the RFC. Negotiations were reported to be under way with representatives of private bond houses to arrange a more satisfactory loan from commercial sources.

## Reduced Rate Schedules Filed

THE state department of public utilities approved, early this month, a new schedule of electric rates, filed by the Southwestern Gas & Electric Co. and providing for immediate reductions and a greater reduction as the volume increases.

The commission estimated that the ultimate savings to consumers in the 60 small communities in the western part of the state served by the company would amount to $35,000 a year, on the basis of present consumption.

## Phone Rates Suspended

THE state department of public utilities January 31st issued an order suspending reduced telephone rates at Hope and requiring the Southwestern Bell Telephone Company to post $10,000 bond to guarantee refund of overcharges, if the reduction ordered by the Hope city council should be sustained by the department upon final hearing.

The ordinance provided for a reduction from $4 to $2.50 per month for business lines and from $2.50 to $1.50 a month for single party residence lines.

# California

## Approves Merger

THE state railroad commission on January 20th approved the consolidation of Pacific Gas and Electric Company subsidiary properties, but cut down the capitalization at which the properties might be carried for rate-making purposes. With its decisions in the Great Western and Sierra-San Francisco consolidations, the commission cleared the last of four consolidation applications made by Pacific Gas to remove that company eventually from the holding company field.

The commission notified the Pacific Gas and Electric that it could transfer the properties of the Great Western Power Company of California, the Great Western Power Company, the City Electric Company, Feather River Power Company, Napa Valley Electric Company, and California Electric Generating Company to the Pacific Gas books at a capitalization of $89,001,217. The Pacific Company has asked to capitalize these properties at $98,414,845. The railroad commission recognized a fixed capital charge of $95,700,087 as legitimate, but required the company to write off $6,698,870 for depreciation.

On the other application, involving properties of the Sierra-San Francisco Power Company, the commission ruled the properties might be transferred and carried on the books at $52,275,277. The company has asked to

book them at $61,201,518. In the last five years the Pacific Company has absorbed about thirty subsidiaries.

### To Spend Forty Millions

PACIFIC Gas and Electric Company will spend $40,906,673 on its system during the present year, according to an announcement made public last month by P. M. Downing, vice president and general manager.

Of the total, $16,510,075 will go into construction of extensions, replacements, and additions designed to keep facilities adequate to meet increased consumption occasioned by the recent voluntary reductions in the company's rates. The new work entails additional maintenance and operation costs that will use the remainder of the amount, Downing said.

### Ickes Favors City Purchase of Power Lines

ANOTHER step toward solution of San Francisco's power problem was taken in Washington, D. C., late last month, when Secretary of the Interior Ickes indicated his sympathy toward "Plan 4," recently approved by city supervisors as the best method of conforming to the Secretary's demand that the city comply with the Raker Act.

Basically, this plan provides for municipal acquisition of a distribution system within the city at an estimated cost of $18,600,000, with an arrangement for sharing Hetch Hetchy power with the Pacific Gas & Electric Co. It was explained by the city public utilities manager that the plan contemplates delivery of 475,000,000 kilowatt hours of electricity to the Pacific Gas & Electric Co. at its Newark plant every year. Of that amount, enough to handle the city's needs will be repurchased from the power company. The difference between the amount sold and the amount repurchased will be given the company as payment for use of its transmission lines from Newark into the city and for stand-by service.

### Asks New Set-up

TRANSFER of $40,000,000 of electric properties of various subsidiary companies to the Nevada-California Electric Corporation, a holding concern, was proposed last month at a state railroad commission hearing before Examiner Fankhauser, who took the application under submission.

Change of the character of the holding company into an operating concern and the dissolution of the various subsidiary companies was favored by the company management in a petition and in testimony to conform to the spirit and purpose of the national Public Utility Act of 1935 in simplifying the corporate structure of the public utility systems of the holding company, it was set forth. The new set-up would not bring any changes in rates or service, it was declared.

## Colorado

### Municipal Plan Aids Reductions

THE municipal light and power department of Colorado Springs reduced gas rates 11 per cent in 1935, retired $143,000 of bonds, paid $80,000 to the city in lieu of taxes, donated $60,000 to the city's general fund to reduce taxpayers' burdens, paid the town of Manitou $2,526.72 for franchise taxes, and finished the year in such fine financial condition that it made another reduction in electric rates on January 1, 1936. This was disclosed January 30th by the annual report which was made by E. L. Mosley, city manager of Colorado Springs.

Manager Mosley said that "basing all calculations on the methods used by privately owned utilities of a similar character, which methods have been almost universally prescribed by courts and commissions alike, the 1935 operations of the light and power department produced a return of 7.97 per cent on the replacement value of the property required to give adequate service at all times to the consumers connected to its electric and gas distribution systems."

## Connecticut

### Truckers Refused Permits

REAFFIRMING its stand that the state of Connecticut has a right to exercise "reasonable" control over its own highways, the state public utilities commission recently denied two petitions of out-of-state trucking companies to operate in Connecticut because an insurance company with whom they have written some of their insurance has not registered with the state insurance department.

In giving a basis for its action, the commission said: "Section 4114 of the General Statutes respecting the authority of nonresi-

dent and foreign insurance companies doing business in this state prohibits such companies doing business within this state 'until and except while it is permitted to do so under the terms of a license issued by the (insurance) commissioner.' The commissioner must satisfy himself, among other things, respecting the financial condition of such company before he shall license the company to do business within this state."

## Utility Aids Towns with Relief

THE 1935 revenues of the Hartford Electric Light Co. exceeded expenses and dividends by 1.2 per cent, or approximately $80,000, of which approximately half would be available for distribution as a "customers' dividend."

The amount being small and of widely scattered benefit, the directors voted to apportion the $40,000 among the towns served by the Hartford Electric Light Co. Accordingly, checks will be transmitted to the town treasurers of 10 communities in sums ranging from $67 to $24,275. No strings are attached to the checks, but a suggestion will be contained in the communications that the amount be used for relief expenses.

## Light Rates Ordered Cut

ACTING upon a complaint from the city of Torrington against existing charges, the state public utilities commission recently ordered the Torrington Electric Light Co. to effect a 7 per cent reduction in its electric rates. This reduction would result in a decrease in the company's revenue of approximately $41,600.

# Illinois

## Seeks Injunction

THE Illinois Power & Light Corporation last month asked the Federal district court for an injunction to prevent the construction and operation of a $420,000 municipal electric plant with PWA money. The voters had already authorized the plant and a bond issue.

# Indiana

## Outlook Bright for Natural Gas

MANUFACTURERS and others in Indianapolis who are anxious to obtain a natural gas supply for the city expressed gratification recently over the signing of a consent decree in Federal court, divorcing Columbia Gas & Electric Corp. and its allies from the ownership and management of Panhandle Eastern Pipe Line Co. This, incidentally, assured the building of a transmission line to the city of Detroit.

In Indianapolis it is believed that the Panhandle Eastern Pipe Line Co. will soon compete with the Indiana Gas Transmission Co. for the local market.

# Kentucky

## City Utility Plants

AN enabling act whereby cities of the second, fourth, fifth, and sixth classes (state law classification) may build and operate water and light plants has been passed by the Kentucky house.

Favorable action in the senate was expected, it is reported.

The measure provides that the cities of the classes named may issue bonds to construct municipal plants if the voters ratify such proposals. A certificate from the state commission would not be necessary.

# Maine

## Tidal Power Project

FINAL approval and release to the War Department January 24th of an additional $2,000,000 for the Passamaquoddy Bay tidal power project opened the way for new construction work there. The additional money, coming out of the Federal work relief appropriation, was set aside by the President several weeks ago for the Passamaquoddy proj-

ect. Its release showed it had been approved by the Comptroller General as a legal expenditure.

Washington proponents of the project look forward to the early passage by the House of the War Department appropriation bill to provide the next $5,000,000 allocation. Representative Ralph O. Brewster said he expected it would be released some time during the month of March.

# Maryland

## Reduction in Gas Rates

AGREEMENT was recently reached between the public service commission and the management of the Washington Gas Light Company of Montgomery county, Maryland, and the Georgetown Gas Light Company of Montgomery county, Maryland, whereby the rates charged the customers of these two companies, both of which supply service in Montgomery and Prince Georges counties, will be reduced, effective February 1st.

Under the new rate schedules filed with the commission the yearly charges to the consumers will be $50,000 (or about 10.9 per cent) less than under the existing schedules, which amount will permit the absorption of the temporary discount of 8½ per cent which was established sometime ago and will provide a further reduction, over and above the 8½ per cent discount, of something more than $11,000 per annum. The customers already have been receiving the benefit of the discount, so that the additional reduction in charges which they now will receive as a result of the agreement will be about $11,000.

The lower rates will apply to both domestic and commercial services and customers using gas for house heating will also share in the reduction.

The commission had instituted an investigation of the rates of these two companies, which are subsidiaries of the Washington gas companies, and, following the establishment of lower charges for the service of the parent companies in the District of Columbia, the commission entered into informal negotiations with the Maryland companies in the hope that thereby a satisfactory adjustment of the rates might more promptly be obtained.

Certain of the civic organizations in the sections served by the companies coöperated in the informal negotiations and some of their representatives have conferred with the commission from time to time during the course of the negotiations.

# Massachusetts

## Reject Regulatory Measures

SIX proposed laws for the further regulation of contracts between public utility corporations were rejected late last month by the legislative committee on power and light, with Senator John S. Sullivan of Worcester, Senator P. Eugene Casey of Milford, and Representative J. Francis Southgate of Worcester, dissenting.

The bills sought to prohibit management and similar contracts for compensation between telephone, gas, and electric companies, and to give the state more rigid control over the sale of gas and electricity between companies.

## Votes Control of Associations

CHARGES that an association of utility magnates put over a $23,000,000 stock steal on the public in Boston were hurled on the floor of the house of representatives January 29th as a group of Boston legislators led a battle to place under the supervision of the state commissioner of corporations and taxation all voluntary associations and trusts which issue stock.

In a bitter debate, Representative McDonald of Chelsea alleged that the Massachusetts Utilities Associates, a voluntary association and subsidiary of the New England Power Association, bought up thirty-five public utility companies in the state of Massachusetts, and then sold stock in an amount which he declared was in excess of the assets assembled.

Speaking in defense of the judiciary committee, which rejected the measure, Representative Martin Hays, Republican floor leader, contended that business interests were entitled to earn a fair return on their investment and warned that some members would drive industry out of the state. Replying, Representative McDonald asserted that it was about time that the consumers needed some legislation to protect them. He contended that the public utilities needed no help from the legislature, pointing out that the recent report of the sliding-scale commission asserted that some of the utility corporations in the state made a profit of 35 per cent.

Defeat of the measure in the state senate was predicted by Boston observers.

# Michigan

## Rules against State

THE business of transporting oil and gas by pipe lines was held closed to the state by Attorney General David H. Crowley last month. Crowley ruled that a pipe line would be a work of internal improvement within the meaning of the constitutional language which forbids the state to engage in works of internal improvement.

The opinion was requested by Representative Miles M. Callahan of Reed City, a member of a legislative committee investigating Michigan's oil and gas resources.

# Minnesota

## Buys Power Franchise

PURCHASE of the natural gas distribution franchise and local property of the Interstate Power Company was announced by the public utilities commission of Owatonna on January 30th. The purchase price was announced as $125,000 and included the entire distribution system of the Interstate Company, valued at $88,000; its buildings in Owatonna, valued at $7,000, and its gross earnings for the balance of its franchise expiring in May, 1937, estimated at $30,000.

It was announced that a 40 per cent increase in volume of gas distributed to Owatonna residents the past year, as compared with the previous season, prompted the commission to complete the purchase, negotiations for which were started more than three years ago.

# Mississippi

## TVA Test Case

JUDGE Allen B. Cox on January 28th in Meridian heard the case of the Mississippi Power Company, which sought to enjoin the city of Starkville from carrying out an agreement with the Tennessee Valley Authority. The suit questions the validity of the contract.

## Sells Municipal System

THE municipal water and light plant of Crystal Springs was officially turned over to the Mississippi Power and Light Company last month. All objections were withdrawn, as citizens showed by an unofficial ballot that 71 per cent was in favor of selling the plant. The price paid by the power company was said to be around $300,000, to be paid over a period of years. The plant has been shut down, but will be maintained for use in case of emergency.

## Eliminates Surcharge

TUPELO, first city to obtain Tennessee Valley Authority power, February 1st announced elimination of a 10 per cent surcharge used to tide the service through the experimental stage. The announcement was made by the mayor as the city celebrated the second anniversary of TVA power.

The 10 per cent reduction—for both commercial and residential users—was said to give the city one of the lowest electrical rates in the world. "Residential consumers are using 270 per cent more electricity," the mayor said, and "pay an average of 1.81 cents a kilowatt hour."

# Montana

## Orders Water Rate Reduction

A HORIZONTAL cut of 25 per cent in the water rates of the Livingston Water Company, and the resumption of service to water users who were disconnected from the lines were ordered by the commission late last month.

An order was made by the board overruling the objection of the Montana Cities Gas Company that the board had no jurisdiction to control rates charged by the company for gas sold to the Great Falls Gas Company. The board reset the hearing in the case of the first-named company for February 28th, when the company is ordered to show cause why the rates it collects from the Great Falls Company shall not be reduced and why it shall not be declared a common carrier.

# Nebraska

## Reduces Power District

REORGANIZATION of the southern Nebraska rural public power district and reduction of its scope from a 12-county organization to a unit embracing only Phelps, Kearney, and Adams counties, was announced by its officials last month.

C. A. Sorensen of Lincoln, former attorney general and counsel for the district, said it would ask the Federal Rural Electrification Administration for a loan of about $400,000 to build 400 miles of transmission line and serve approximately 1,100 farmers.

The territory to be served by the new district would be irrigated by the central Nebraska public power and irrigation district, and the rural electrification project would buy power from it.

## Reduction Not Likely

CHAIRMAN Drake of the state railway commission last month advised Mayor Towl of Omaha by letter that a telephone rate reduction in that city apparently is out of the question. The letter was in response to one written to the commission by the mayor.

Chairman Drake said the present rate of earnings of the Northwestern Bell Telephone Company on its property valuation was 3½ per cent. He indicated that a reasonable return would range from 5 to 6 per cent.

# New York

## Utility Bills Introduced

WITH the introduction in the state senate January 23rd of three bills further tightening the public service commission's control over utility companies, Democratic legislators moved to carry out another part of the extensive legislative program outlined by Governor Lehman in his annual message. The bills were introduced in the upper house by Senator Thomas F. Burchill, Democrat, while three Democratic assemblymen introduced the companion measures in the lower house.

The three major recommendations made by the governor in his extensive treatment of the utility question were covered in the new bills. According to the first measure, utility companies are forbidden to allow special rates to any consumer, the proposed law providing that each consumer shall receive the lowest rate being paid by any consumer. However, in order that the companies may revise their schedules, the law will not become effective until September of this year.

The second bill provides that utility companies share their profits with consumers in the form of reduced rates and is similar in operation to the so-called Washington Plan, which is being used in the District of Columbia. It empowers the commission to require a company to reduce its rates over a period of years if the latter's profits in each preceding year are found to exceed what the commission considers a "fair return" on the property.

The third law would prohibit a utility company from making contracts for purchases of materials or services from any other company in which its officers or directors are officials, unless the contracts are first approved by the commission. This law, it was felt, would do away with exorbitant fees paid by utilities when purchasing from such companies.

# Ohio

## Open Utility Warfare

OPEN warfare between the city of Cleveland and the Cleveland Electric Illuminating Company was demanded in the city council late last month by Councilman Ernest J. Bohn "if it is true the utilities blocked the refunding bill the city wanted passed by the Ohio legislature." Councilman Bohn requested the finance director to prepare a report showing how many large commercial customers the light plant had lost in the last three months, so that the council might estimate the strength of the drive being made by the Illuminating Company to sell its own service to the municipal plant's large customers. It was revealed that two of the light plant's oldest and largest commercial customers, that paid a total of about $21,000 to the municipal plant last year, had transferred to the private company.

The refunding bill to which Bohn referred was introduced by State Senator Frank E. Whittemore of Akron to permit municipalities to vote on issuance of funding bonds and to permit refunding. It was introduced to help Akron solve its financial problem, but was supported by Mayor Harold H. Burton and Finance Director G. A. Gesell of Cleveland as a necessary step in their financial program.

# Oregon

## Asks to Abandon Gas Service

THE Eastern Oregon Light and Power Company of Baker late last month filed a petition with the state utilities commission asking permission to discontinue its gas service there after a period of three years. The company alleged that the cost of producing gas was excessive when compared with the cost of generating electricity. Figures presented indicated that the company had operated its gas service at a loss for several years.

# Pennsylvania

## Blocks Utility Merger

THE public service commission January 29th dismissed the application of the York Railways Company and the Edison Light & Power Company for permission to merge. At the same time, the commission started an investigation into the rates charged by the power company. Both concerns operate in York county. The commission intimated that it had information indicating the rates, charges, and regulations of Edison Light & Power Company "are unjust and unreasonable, and produce an excessive rate of return." The company was directed to answer before February 10th, after which a hearing date would be set.

The decision was regarded in some quarters as a victory for the Utility Consumers' League of York city and county, which was formed to fight the merger and to seek lower utility rates.

It was brought out in hearings that the York Railways Company owns the Edison Company and that, in turn, 99 per cent of York Railway common stock is held by the Municipal Service Corporation, a New Jersey holding company. In its decision the commission pointed out that the railway company operated at a loss in 1933 and 1934, while the power company had operated profitably.

# Rhode Island

## Files New Rate Schedule

A NEW schedule of rates, effective in thirty days, was filed with the state division of public utilities January 20th by the Blackstone Valley Gas and Electric Company. According to estimates made by the company, the reductions and elimination of the house-area rate basis will mean a saving of about $109,000 annually to its customers.

Commercial and industrial consumers will also benefit from the new rate schedule.

## Expect Telephone Rate Inquiry

THE senate judiciary committee last month was expected to consider and possibly report out Senator Francis J. Kiernan's resolution to create a senate committee of five members to investigate telephone rates in Rhode Island and make recommendations to the division of public utilities.

# South Carolina

## Donations of Free Water Cease

COLUMBIA'S donation of free water to churches, charitable institutions, and public buildings ceased at midnight January 31st. More than 75 institutions and buildings in the city will be charged for water consumed. This is a departure from a policy established many years ago when the city agreed to furnish free water to these organizations. The city council had previously adopted a resolution placing a curb on the donation of water, but later rescinded the action and churches and charitable institutions were excluded from the motion pending approval of the government.

W. A. Tomlinson, city engineer, who was instructed to confer with government officials regarding the free use of water, received a communication from Captain J. L. M. Irby, acting state PWA director, in which the director pointed to a state law prohibiting the city from affording free use of water to these institutions. This action was brought about

owing to a loan and grant agreement with the Public Works Administration in which the city procured $893,000 for the construction of an addition to its waterworks and sewer system.

It was reported that meters were being installed in the places which have been receiving free water. This action was expected to increase the city's revenues by more than $25,000.

# Tennessee

## Files Plea in Abatement

A PLEA in abatement and a demurrer were filed in chancery court at Paris last month in answer to a 26-page complaint bill filed by the Kentucky-Tennessee Light and Power Company in December, in which the right of the city of Paris to reënter the power distributing business, to borrow money from PWA, and to make a contract with TVA was challenged. The papers were filed by local attorneys, acting in the city's legal interests.

Dismissal of the power company's suit was asked in the plea in abatement on the ground that the city had previously entered a complaint against the power company seeking court construction of a clause in the contract made with the power company in 1926.

The demurrer declared that no equity existed in the power company's suit because it shows the power company has no exclusive franchise to distribute power in Paris and that the city of Paris has the right to reënter the power business.

## Makes Definite Proposal

THE Memphis Power & Light Company on January 22nd made a definite proposal to the city for assuming distribution of TVA electricity, officials said, but terms of the proposal were not made public at that time. The proposal was made by an attorney for the utility company to Major T. H. Allen, light commission chairman, and Wilson Mallory, light commissioner.

Memphis recently signed a 20-year contract for TVA power, and the power company suggested informally it be permitted to distribute the electricity, adding surcharge to the basic TVA rates.

# Texas

## Authorize Bond Issue

AN election to authorize a $50,000 revenue bond issue to construct a municipal power and light plant at Leonard carried by almost two to one January 25th. One hundred and thirty-one votes were cast in favor of the proposition and seventy-one against. The plant will cost $82,727, with the Federal government making a grant of $23,727.

The bonds will be retired from the income. No increase in taxes was anticipated.

# Virginia

## To Build Power Lines

THROUGH a loan contract approved by the Rural Electrification Administration, the Farmers' Rural Utilities, Inc., a Virginia corporation, will construct 406 miles of lines to carry electric power to previously unserved parts of Spotsylvania, Caroline, Hanover, and Orange counties.

The contract approved by the REA calls for a loan of $366,800 to the Farmers' Rural Utilities, a mutual company, with headquarters at Bowling Green. The contract provides for a self-liquidating loan on the usual REA terms; interest at 3 per cent and repayment spread over twenty years. Under this project the lines to be erected by the Farmers' Rural Utilities, Inc., will take electric power to 1,511 new customers. Only 153 farms in the four counties were listed by the 1930 census as receiving electric service. Power will be furnished at wholesale by the Virginia Electric and Power Co. The retail cost for 100 kilowatt hours a month will be $4.80.

# The Latest Utility Rulings

## Capitalization of Consolidated Properties

THE Wisconsin commission approved the consolidation of various public utility properties through the acquisition of the properties and assets by the Wisconsin Central Utilities Company. Authorization was granted for the issuance of promissory notes and no-par value common stock for this purpose.

With the exception of estimated operating economies, said the commission, it was difficult to see what public interest would be served in the consolidation of widely isolated groups of property, but, continued the commission:

> The question of estimated operating economies, however, brings the merits of this case into that twilight zone where it is difficult to make a definite finding of consistency or inconsistency with the public interest. If substantial economies in operation can be effected through such a consolidation, the commission is not disposed to deny this application for want of a more adequate affirmative showing of public interest.

The company was required to discontinue the practice of charging an arbitrary percentage of direct cost of construction for engineering and supervision services. Such services, in the opinion of the commission, should be paid for on the basis of actual cost to the company rendering the service and no payments should be made until a copy of the contract or other written arrangement providing for such payments should be submitted to and approved by the commission.

Authority to issue $100,000 of 30-year 6 per cent promissory notes as part of the capitalization, while the combined notes payable of the constituent companies amounted to $49,000, was disapproved. The notes were limited to the latter amount. It was said that the company would have the benefit of an income tax deduction measured by the amount of the interest charged thereon if the larger amount of notes were authorized, but the commission said:

> We cannot reconcile ourselves to the opinion that the law (Chapter 184) was ever intended to require this commission to authorize the issuance of securities for this purpose alone.

The rate of 6 per cent was found to be unsupported by evidence, and the commission was inclined to the opinion that a rate of 5 per cent would not be unreasonable for a long-term evidence of debt of a Wisconsin public utility as large as the applicant. *Re Wisconsin Central Utilities Co. (2–SB–61).*

## Connected Lamp Basis for Charges Not Discriminatory

THE supreme court of Ohio sustained a ruling of the commission that rates based on the number of connected lamps on consumer's property were not preferential and discriminatory but were fair and reasonable.

Complaint was made that the charges thus made were unfair because they were different to different classes of consumers, that the consumers who used lights a little paid a higher rate than the consumer who used the lights more and who greatly exceeded the minimum wattage allowed. The court said that it was inclined to the view that this fact did not render the rate unequal, unfair, or discriminatory. Judge Day said:

> While a consumer may use little or no energy, a demand is nevertheless placed upon the utility to meet the maximum demand of the connected wattage when the need arises

and this demand, however remote it may be, of necessity adds to the cost of maintenance, operation, and production.

We think it is somewhat comparable to the automobile in that the owner who uses his automobile a comparatively few miles a year must pay more per mile than he who uses it many miles per year, by reason of the capital investment and depreciation as a result of the passage of time.

The company must hold itself in readiness to furnish the maximum demand at all times, and it is only fair and proper that the charge be made to depend upon the readiness to furnish the maximum demand rather than to vary with the amount of current actually furnished. Whether one customer uses his connected lamps more than another is immaterial in view of the fact that the fixed cost to the company for holding itself in readiness remains the same. The question is not so much the amount of electrical energy consumed as it is the expense necessary to provide sufficient and adequate equipment to render the service responsive to the possible maximum demands of the consumers. The method of charging employed in the instant case insures an equitable distribution of the cost of service among all.

*Smith et al. v. Ohio Pub. Utilities Commission, 199 N. E. 179.*

## Two-meter Rate Economically Unsound

THE Michigan commission, in permitting an electric utility to discontinue schedules providing for a 2-meter electric rate, declared that the general use of such a rate is economically unsound, continuing with the statement:

> It results in an extra cost for equipment necessary to serve a customer, in extra operating costs and in dissatisfaction between the company and the customers due to the possibility that appliances will be connected either intentionally or unintentionally on the meter of the lower priced service even though such connection is not provided for in the schedule.

*Re Indiana & Michigan Electric Co. (D–1832).*

## Commission Reduces Rural Rates of Municipal Plant

JURISDICTION was asserted by the Nebraska commission to regulate rates of a municipality furnishing electric service to rural customers outside of its boundaries. Rates of 13 cents per kilowatt hour in the first block, falling to 7½ cents per kilowatt hour for over 100 kilowatt hours, were reduced to 8 cents per kilowatt hour for the first 40 kilowatt hours and 4 cents per kilowatt hour for the excess.

The reason for regulation of municipal plant rates outside of the municipality was explained as follows:

> The people of the city or village elect the governing board and have an indirect voice in fixing their own rates. If dissatisfied with existing rates, consumers may complain to the governing board. If the board refuses relief, then the consumers may exercise their sovereign powers by electing a new board and in some cases the right of recall or the initiative and referendum. The rural consumer stands in a different position. He has no vote and it was he that the legislature intended to protect when it conferred upon this commission the power to regulate electric rates and service in rural territory. Logic and reason compel us to say that the legislature never intended to protect rural consumers against unjust and unreasonable rates of a private utility and leave him unprotected against unjust and unreasonable rates of a municipal corporation. We therefore hold that when a municipal corporation goes beyond its corporate limits with an electric transmission line, it at once comes under our jurisdiction as to service and rates to rural consumers.

Collection of rates sufficient to retire bonds and pay for improvements was criticized so far as outside customers were concerned. The commission said:

> When the bonds have been fully paid the village consumers will be the proud owners of an electric transmission line all paid for out of earnings. Not so with the complaining rural consumers. All they will have left will be their receipts for electric energy consumed and their contribution to capital investment of a transmission line in which they have no interest. As far as the com-

plainants are concerned the village of Salem is a private electric utility and subject to the law governing private utilities. Ratepayers of a public electric utility should pay a reasonable return upon that used for the public convenience including consumption of capital investment. They should not be required to pay for capital investment and then be required to pay a return upon their own investment.

*Towle et al. v. Village of Salem et al.* (*Formal Complaint 760*).

## Competitive Telephone Extension to Render Cut Rate Service

AUTHORITY for an extension of a rural telephone line into the territory of another company was denied by the Nebraska commission. The decision was said to be important because it was the first case in which the commission had been asked to pass upon an application for extension authority under General Order No. 60, which provides that no company shall extend lines into the territory of other companies without first applying to the commission.

The commission said that the prime reason for the rule was for the purpose of protecting a weak company against the invasions of a strong company. In this particular case the weaker, financially, of the two companies was encroaching on the territory of the stronger company, but the commission declared that it should not be influenced by such facts and must lay down some principles which would stand up under all circumstances.

The person desiring service lived in territory of the other company and was surrounded by subscribers of that company. Service on the competitive extension, however, would bring him a reduced rate which the commission said was inadequate to cover the cost of rendering service. The commission continued:

> In other words, this service is now being offered to these customers in their own territory and in other territories at a rate which is slowly wrecking the company, and the time will come when the company, in order to continue to serve, will be forced to increase the rates, in all probability to a rate in excess of the former rate of $1.50 per month.

Good management on the part of one company, it was said, is entitled to some protection from poor management on the part of another company. If one company is willing to serve at less than cost, it may be its right, but "certainly it should not be allowed at the expense of a well-managed company."

Commissioner Bollen dissented from the majority decision, stating that it was not the intention of the general order to deprive any farmer of telephone service because he could not afford to pay existing rates, and if one company was unable or unwilling to furnish telephone service in a rural territory at rates that the subscriber could afford to pay, then it should withdraw from that territory and permit another company to furnish service at a rate the subscriber could afford to pay. *Re Craig Telephone Co.* (*Application No. 11550*).

## What Constitutes a Governmental Function

THE appellate division of the New York supreme court, in a case relating to immunity from taxation, held that the Panama Railroad Company, a corporation controlled by government through stock ownership and engaged in operating business enterprises, was not carrying out governmental functions so as to call for exemption from taxation. Mr. Justice Heffernan said:

> The operation of steamships, railroads, stores, hotels, or dairies has not the slightest

relationship to any governmental function. Common sense compels the conclusion that such activities are intrinsically, traditionally, and historically of a commercial and proprietary nature. And this is further reinforced when it is considered that the particular activities here in question have a background of fifty-five years of private, commercial operation.

*People ex rel. Rogers v. Graves et al., 283 N. Y. Supp. 538.*

## Lease of Bus Line for Unified Operation Held Proper

THE appellate division of the New York supreme court annulled a commission order denying authority to lease separately owned omnibus lines to a transportation company in order to permit unified operation in a densely populated area. The commission had denied authority on the ground that the statute did not permit the lease.

The petitioners for authority were four street railroad corporations and three omnibus companies. The stock of all the companies was, through intercorporate relations, owned by one stockholder.

The court pointed out that operation as a unit made for the convenience of the public, and, if each company operated separately on the streets where it had a franchise, there could be no through bus routes. Continued unified operation without a lease was said to be impossible because of an order of the commission relating to the display of route and destination signs and permanent signs or markings on busses. The court said that it would not be practical or even possible for a change of operators to be made at street corners where the bus leaves the zone covered by one of the companies and passes into that of another, or to change on the front of the bus the permanent signs giving the name of the corporation that is authorized to operate the line.

A statute providing for leases by omnibus corporations or any corporation owning or operating any omnibus line was held to permit the contract of leasing if approved by the commission. *Westchester Electric Railroad Co. et al. v. Maltbie et al., 283 N. Y. Supp. 527.*

## Motor Carrier Must Insure with Company Licensed to Do Business in State

THE Connecticut commission decided that an applicant for authority to operate as a motor carrier for hire, although entitled to the presumption of public convenience and necessity because of operations prior to the regulatory law, was not entitled to a permit unless and until he should obtain liability insurance in an insurance company licensed to do business within the state of Connecticut.

The commission observed that the obvious purpose of the statute regulating the insurance business within the state was to insure adequate financial responsibility of a nonresident or a foreign company for the protection of Connecticut residents. The commission continued:

> In the absence of financial responsibility of a permittee justifying the issuance to him of a permit as a self-insurer, a resident of this state having a claim against the permittee for negligent operation of motor vehicles operated by him under the permit over our highways may find it necessary, where the company insuring the permittee is not licensed to do business within this state, to sue in a state where the company is licensed to do business, or in its home state upon the judgment obtained in Connecticut against the permittee, under such statutory provisions as may exist in the foreign state permitting the judgment creditor to become subrogated to the rights of the permittee under his policy of insurance.

The commission made similar rulings

in another case and further decided that interstate motor carriers should comply with such insurance requirements, at least until the Interstate Commerce Commission had established regulations governing such matters. The commission said:

> If and when regulations respecting insurance are established by the Interstate Commerce Commission requiring carriers to show public liability and property damage insurance in a company or companies licensed to do business within the states through which the carrier proposes to operate, no conflict between the policy of this state in the protection of its citizens and the rights of a purely interstate operator will then exist.

*Re John J. McCarthy Co. (Docket No. 6266, Application No. 406-C); Re University Overland Express, Inc. (Docket No. 6267, Application No. 480-N).*

## Accrued Depreciation Determined by Observation

AN estimate of accrued depreciation in the electric department property of a company before the Connecticut commission was based upon observation of the condition of the property, with consideration of obsolescence and amortization of power producing facilities. This estimate was fundamentally the judgment of the company's engineer of the present condition of the property and was claimed to reflect the amount that should be in the retirement reserve based on the condition of the property.

A city complaining against rates of the company disagreed as to the amount of accrued depreciation on certain items and claimed that the amount of accrued depreciation should conform closely to the expired life of the units of property and to the amount in the retirement reserve.

The Connecticut commission, in passing on these claims, said that while the company's assumption that a certain power plant was in 100 per cent condition when its use was discontinued could not be accepted as correct for accruing depreciation, it appeared that in other respects "the company's estimate was made generally in accordance with accepted practice and it must have greater weight than the city's estimate of this item based mainly on the estimated service and expired life of the units and classes of property."

With respect to the matter of retirement reserve, the commission said:

> The amount of accrual for retirement reserve must be considered with due regard to the experience of retirement needs and to the ratio of the retirement reserve to the fixed capital or original cost, as well as with regard to the general financial condition of the company; inasmuch as a company may overcome a deficiency in retirement reserve by a transfer from the profit and loss account.

*Torrington v. Torrington Electric Light Co. (Docket No. 6123).*

## Other Important Rulings

THE Missouri commission ruled that it had no authority to fix minimum rates for railroad companies, although the commission was not to be understood as saying that in a proper case such as the inauguration of such rates as would impair the ability of the carrier to perform its required services to the public or to prevent discrimination, the commission's general regulatory powers were not broad enough to prescribe a minimum rate. *Re Missouri-Kansas-Texas Railroad et al. (Case No. 9013).*

The Missouri commission, in approving a proposed plan of reorganization for a public utility company, stated that under the statutes that pertain to reorganizations the commission must con-